FINANCIAL TIMES

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US says no more chances for Saddam

Clinton vows bombing will start if Baghdad steps out of line

By Stephen Fidler in Washington, Roula Khalaf in Baghdad and David Buchan in London

The US and Britain grudgingly accepted yesterday Iraq's promise to resubmit itself to international weapons inspections, but expressed determination to bomb Baghdad the next time it stepped out of line.

"Iraq has backed down," said President Bill Clinton, a day after he launched and then aborted a bomber attack on Baghdad. But he said the two-week old crisis would not be over until Iraq "lived up to its obligations" to let United Nations inspectors resume their work without restriction.

Tariq Aziz, Iraq's deputy prime minister, said Iraq would co-operate with the UN weapons inspectors but he said he did not know whether the crisis was over. "I cannot be optimistic and say yes and I cannot be pessimistic and say no," he told CNN.

Iraq and the US took their confrontation to the brink of war, with Saddam Hussein delaying his first concession on Saturday until after B-52 bombers were in the air with cruise missiles aimed on Iraq. Mr Clinton then recalled the bombers, but only dropped the menace of an immediate military strike when Iraq abandoned an attempt to link renewed inspection to removal of sanctions and promised "unconditional" UN co-operation.

The Iraqi leadership put a triumphant gloss on its climbdown. "The rug was pulled from under the feet of the US administration," said the official Al-Thawra newspaper. Iraqi officials said that any decision by the US to strike Iraq following its decision to resume co-operation with the UN Special Commission would amount to "naked aggression".

But Britain, the only country ready to join the US in attacking Iraq, said yesterday that Saddam Hussein was now "trapped". Tony Blair, UK prime minister, said "one false move and he [Saddam Hussein] can be hit legitimately" with more international support than before."

Mr Clinton said he recognised that bombing would "significantly degrade Saddam Hussein's ability to develop weapons of mass destruction and to deliver them", but it would also "mark the end of Unscom". On balance, the president said it was more important to go on gathering information on Iraq's weapons.

The UN Security Council was meeting last night to decide the return of Unscom inspectors who moved out of Iraq to Bahrain. The inspectors said they were ready to return immediately.

But reflecting Washington's mounting frustration at Saddam Hussein's brinkmanship, Mr Clinton announced that the US would step up efforts to undermine the Iraqi leader by, among other things, increasing support for Iraqi opposition groups.

Iraq's deputy PM Tariq Aziz said: "I strongly condemn the statement of President Clinton regarding the plans of his government to overthrow the government of Iraq. This is a flagrant violation of Security Council resolutions as well as international law."

Iraq's latest climbdown has reopened divisions between the US and countries in the region. Prince Sultan, the Saudi defence minister, said yesterday the US would not be allowed to use his country, where 5,000 US troops and 100 warplanes are already based, to launch attacks on Iraq.

One last chance, Pages 2 and 3
A hollow victory, Page 16

AFTER EIGHT YEARS OF SANCTIONS, CITIZENS OF BAGHDAD HAVE LOST SIGHT OF WHAT FIGHT IS ABOUT

Power politics are lost on crisis-weary people of Iraq

By Roula Khalaf in Baghdad

After two wars and eight years of punishing sanctions against Iraq, the people of Baghdad do not dwell on thoughts of missiles or smart weapons. Instead, they go about their daily business, sending their children to school and driving to their offices.

That does not mean they disregard the dangers or do not sometimes prepare for the worst. The queues at petrol stations over the past week and the concerns occasionally expressed about dwindling rations testify to those fears.

"We remembered the shortages of the Gulf war and we thought the US might target infrastructure and oil installations," said Ahmed, a shopkeeper in Bab Sharqui in the town centre.

As Iraq plays its cat and mouse game with the US, Iraqis seem to have lost sight of what the fight is all about. While they continue to suffer from draconian sanctions imposed by the UN after President Saddam Hussein's 1990 invasion of Kuwait, they perceive UN weapons inspectors as sophisticated spies who use the most advanced technology to track information about weapons of mass destruction programmes. The people of Baghdad think they should have found it all by now.

"It has been eight years and the inspectors have been everywhere, even in our homes. Their aeroplanes can even uncover what is hidden underground," said Salim Ibrahim, who runs a tea stall. "Where are we hiding the weapons, between the earth and the sky?"

But if Iraqis have stopped caring about crisis, it is also because they have watched their leadership at work for decades and know its strategies better than anyone.

At a family restaurant beside the River Tigris, Saadoun, a student, said many Iraqis have assumed the regime would find a way out of the latest crisis and avert military confrontation.

"We are 90 per cent certain this will end peacefully. Iraq just wanted to make noise and attract attention," he explained. "People say we do not care if we get bombed, but of course we care. We lose our livelihood and the country will be destroyed, and, who knows, there could be internal unrest that threatens stability.

"We knew that if none of our friends like the Russians and the French came to the rescue, the government would simply back down." Mohsen Cha'alan, manager of a sportswear store, said: "We are hoping that this is the end, but clearly we need better news.

"It is not that US warplanes in our skies are anything new, but now it is all in their hands, not in ours."

Abderrahmane Ibrahim, the owner of a Baghdad bookshop, said it was "like living somewhere between reality and fantasy". While Iraq's leadership was yesterday proclaiming victory in its latest showdown with the US, Mr Ibrahim, like many Iraqis, was confused and looking for a clearer signal of what might lie ahead for him and his family.

"We don't know where we stand. But we know the US has a stick and it could strike without warning, even without any support, as they have done in the past."

An Iraqi guards the front of the UN headquarters in Baghdad. As local people face the effects of draconian sanctions, they continue to see UN inspectors as spies and believe they must have found what they were looking for by now. AP

WORLD NEWS

Europe trails US in competitiveness league, says report

Europe lags behind the US on most measures of competitiveness, says a report highlighting the European Union's inability to create new jobs as quickly as the US and Japan, its poor response to innovation, a lack of risk capital and high labour costs. Page 18; Boost for Brussels, International news, Page 4

Schröder starts Moscow visit
Gerhard Schröder, German chancellor, arrives in Moscow today for a visit aimed at broadening German-Russian relations in preparation for the post-Yeltsin era. International news, Page 4

Anti-smoking groups question deal
US anti-smoking groups want to halt the proposed $206bn settlement reached by tobacco companies, accusing its architects of trying to rush it through without public scrutiny. International news, Page 4; Editorial Comment, Page 17

Indonesia rounds up protesters
Indonesian political activists were detained in response to renewed riots and clashes between protesters and police. But students vowed to rally again and called for the military's chief commander to be sacked. International news, Page 5

Climate meeting ends in deal
The United Nations climate change conference in Buenos Aires ended with agreement on a deadline of late 2000 for detailing how greenhouse gas emissions are to be cut. International news, Page 4

Serbs offer direct Kosovo talks
Serbia offered to host direct, internationally monitored negotiations about Kosovo with the province's ethnic Albanian majority. International news, Page 4

Apec summit disappoints
Hopes of a deal to liberalise trade at the 21-member Asia-Pacific summit ended acrimoniously as Japan and the US traded accusations and the package had to be sent to the World Trade Organisation. Page 18; Summit details, International news, Page 3; Observer, Comment and analysis Page 17

China to regulate procurement
Beijing is drawing up a law on government procurement aimed at fighting waste as well as the corruption that cost the government more than $5bn last year. International news, Page 5

Okinawa votes in businessman
Concern about the economic situation overcame resistance to the presence of US military bases in gubernatorial elections in Okinawa. Victory went to local business leader Keiichi Inamine. International news, Page 5

British groups flourish abroad
The overseas divisions of Britain's largest multinational companies are more profitable than those of international competitors, Oxford researchers say. UK news, Page 6

UK farmers in line for state aid
UK agriculture minister Nick Brown is expected this week to announce £80m-£90m ($132m-$150m) of aid for farmers to alleviate their worst crisis since the 1930s. UK news, Page 6

Russia unveils plan details
Moscow issued its written economic plan promising to cut taxes, attract foreign investment, pay workers on time and hold down inflation. The government said it intended to increase state intervention in the economy and make it more "socially oriented".

BUSINESS NEWS

Alstom plans to double US sales over five years

Alstom, one of the world's biggest electrical engineering suppliers, plans to double its sales in the US in the next five years. The company said it was particularly keen to expand in rail transport. Page 19

Bertelsmann, Europe's biggest media group, is believed to be close to finalising the acquisition of a majority stake in Springer Verlag, the scientific publisher, as part of a move to establish a commanding position in specialist publishing. Page 22

Iceland hailed the success of its privatisation programme after an initial public offering in Icelandic Investment Bank, the state-owned commercial lender, was four times subscribed. Page 23

Thyssen, the German industrial group, said market conditions had become harder for all its divisions. Its prospects were being hit by expectations of lower world growth. Page 22

Commerzbank Global Equities, the German investment bank whose expansion plans have been the talk of London this year, turns on its screens for business today. Page 22

Petrobrás, the Brazilian state-owned oil company, is to begin raising an extra $300m from an enlarged Eurocommercial paper programme, in a sign that international markets are re-opening to the country. Page 19; Editorial Comment, Page 17; Lex, Page 18

Aegon, the Dutch insurer, has revised its profit forecast for the year, saying it now expected an increase in net earnings of about 25 per cent. Page 22

Oracle and Microsoft, the world's largest software companies, lock horns today at the opening of Comdex, the technology industry trade fair. Page 19

British Telecommunications is considering several options for its £2bn ($3.3bn) property portfolio, including spinning off the assets into a separately managed property company. Page 20

Citigroup, the US financial conglomerate formed by the merger of Citicorp and Travelers Group, is developing plans to cross-sell its products online, using a marketing model borrowed from computer and software companies. Page 20

Morgan Stanley Capital International, the global index provider, will today launch a bond index for Europe's future single currency in the latest shot of the "battle of the indices". Page 19

Compaq, the US computer group, said it would "aggressively promote" the AltaVista internet search engine it acquired as part of its takeover of Digital Equipment in January. Page 20

When shares in the merged DaimlerChrysler start trading tomorrow, it will mark the latest attempt to create a global market in equities. Page 23

Masco, a US-quoted home improvement and building products group, has made a recommended £40.5m ($67m) bid for Heritage Bathrooms. Page 20

Euro Prices
A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets.
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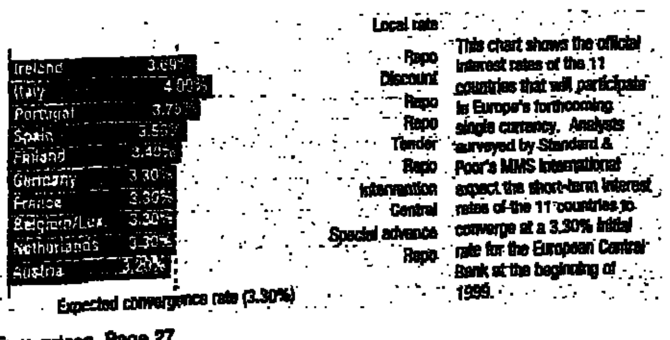
EURO INTEREST RATE CONVERGENCE



This chart shows the official interest rates of the 11 countries that will participate in Europe's forthcoming single currency. Analysts surveyed by Standard & Poor's MMS International expect the short-term interest rates of the 11 countries to converge at a 3.30% initial rate for the European Central Bank at the beginning of 1999.

Euro prices, Page 27

Ecclestone's bond issue still on track

By Patrick Harverson and Mark Killick in London

Bernie Ecclestone, the Formula One motor racing promoter, plans to push ahead with the sale of his $2bn eurobond issue this week in spite of a warning from the European Commission that its investigation into the sport's commercial arrangements was not complete.

This autumn, Mr Ecclestone sought a "comfort letter" from the European Union competition authorities that would allow him to reassure prospective investors the inquiry would not jeopardise the sale of the bond.

However, Brussels refused his request, and a joint investigation by the Financial Times and BBC TV current affairs programme *Panorama* has discovered that the Commission vigorously objected to a statement issued in September by F1 when the eurobond was announced claiming there were only "a few minor issues" to be resolved with the Commission.

The competition authorities told Mr Ecclestone their investigation was not over and they would give no assurances about the outcome of the inquiry, which has forced him to postpone the $3bn stock market flotation of his main F1 company.

The rapid growth over the past decade in the worldwide popularity of F1 racing, the premier international motor sport championship outside the US, has made Mr Ecclestone one of the UK's richest men.

However, the complex nature of many of the commercial deals struck by the F1 promoter with broadcasters, racing teams and the Fédération International de l'Automobile, the sport's governing body, has attracted the attention of EC antitrust authorities.

Among the issues under examination are the length of the agreements between Mr Ecclestone and the FIA and possible conflicts of interest arising from Mr Ecclestone's roles as senior official of the FIA and head of the company that negotiates commercial contracts with it.

Last night, a spokesman for Mr Ecclestone said the promoter believed he had satisfied some of the commission's concerns and could satisfy the others. Uncertainty surrounding the outcome of the EC's investigation into F1 may overshadow the attempts by Mr Ecclestone's bankers to sell the bond to prospective investors. The marketing of the bond begins in earnest this week.

The $2bn bond is secured against the future TV revenues from Grand Prix racing and intended as a precursor to a flotation of the F1. Most of the proceeds will got into a trust for Mr Ecclestone's family, but a sum of $100m will be paid to the FIA.

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WORLD NEWS

IRAQI WEAPONS STAND-OFF WASHINGTON THREATENS MILITARY STRIKES WITHOUT WARNING AMID SCEPTICISM OVER BAGHDAD'S COMMITMENT TO CO-OPERATE

Last chance for Unscom inspectors, says US

By Stephen Fidler in Washington

The US yesterday stepped back from military strikes against Iraq at the weekend after what it described as an unequivocal climbdown by Saddam Hussein, the Iraqi leader. It also decided to give another – possibly a final – chance to weapons inspectors from the United Nations to eliminate Iraq's programmes to build weapons of mass destruction.

Taken at face value, the Iraqi reversal should allow inspectors from the UN Special Commission on Iraq *(Unscom) back into the* country to pursue what US officials have described as "aggressive and intrusive" monitoring of the country's chemical, biological and nuclear arms capabilities.

It was Baghdad's refusal to permit these inspectors to carry out their tasks that led to a build-up of US forces and the weekend order by President Bill Clinton, delayed soon afterwards following Iraqi indications that it would comply with the UN Security Council demands, to launch air and missile strikes against Iraq.

Officials made it clear that the US remained sceptical of the Iraqi leader's commitment to co-operate, suggesting military strikes could follow without warning if he did not keep his word. "We want to test that," Samuel Berger, the president's national security adviser, said yesterday. "If it works, it will play itself out. If they don't comply, we are prepared to act, as the president indicated."

Richard Butler, head of Unscom, told CNN yesterday that, given full Iraqi co-operation, it would take two to three months for Unscom to complete inspections on the commission's target sites in the chemical weapons area, and longer for biological weapons where least was known. After this, Iraq would still have to submit to long-term monitoring. Inspectors from the International Atomic Energy Agency (IAEA) are also said to be close to completing their work on nuclear facilities, before they, too, move to long-term monitoring.

Mr Clinton yesterday outlined five conditions that would satisfy the US: Iraq must resolve all outstanding issues raised by Unscom and the IAEA; inspectors must have "unfettered access to inspect and to monitor all sites they choose with no restrictions or qualifications" under Iraq's February agreement with Kofi Annan, the UN secretary general; Iraq must turn over all relevant documents; and lastly it must not interfere "with the independence or the professional expertise of the weapons inspectors".

He said the original dissatisfaction of the US and UK with Iraq's original letter on Saturday indicating it was ready to change course had resulted in important clarifications from Iraq. These made clear Iraqi compliance *would be unconditional, that* decisions of August and October not to co-operate with Unscom were revoked, and that its co-operation "would be unconditional and complete".

Mr Clinton made clear his view that the use of military force would have, in *US* eyes, have "marked the end of Unscom".

"If we take military action, we can significantly degrade the capability of Saddam Hussein to develop weapons of mass destruction and deliver them. But it would also mark the end of Unscom ... Then we would have no oversight, no insight, no involvement in what is going on within Iraq."

Bill Clinton: use of military force would have 'marked the end of Unscom'

Many analysts have detected a shift in opinion *within the administration in* Iraqi policy this year, following a growing frustration with the repeated cycles of confrontation with Iraq, military build-up, and last ditch moves by the Iraq leader usually aimed at splitting *the UN Security Council.* This shift towards a policy of "containment" of Iraq – backed up by military strikes – looks to have been delayed by the weekend's developments.

Indeed, the dilemma of *such a containment policy is* that without Unscom, the legal basis for sanctions on Iraq would have weakened, and sanctions would have eroded more rapidly than they seem to be doing anyway.

Second, as analysts from the Stimson Centre in Washington said: "Given the enormous difficulty of the mission, even a sustained *campaign* of US air strikes will fall short of disarming Iraq completely of its chemical and biological weapons capability."

However, there was an important change of emphasis in Mr Clinton's remarks, showing it is searching for ways to undermine Mr Saddam, whom it sees as the key to its foreign policy dilemma in Iraq.

"Over the past year, we have deepened our engagement with the forces of change in Iraq, reconciling the two largest Kurdish opposition groups, beginning broadcasts of a Radio Free Iraq throughout the country. We will intensify that effort ... to do what we can to make the oppositions a more effective voice for the *aspirations of the* Iraqi people," he said.

With the memories still vivid of the failed uprisings against the Iraqi leader after the Gulf war nearly eight years ago, US officials were quick to describe this as a long-term objective. It is also one fraught with difficulty, given the fractious nature of those opposition groups and given that the US would not want to see a multitude of weak warring statelets replace a united Iraq.

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UK in warning to Iraq over raids

By George Parker, Political Correspondent

Tony Blair, UK prime minister, yesterday warned Iraqi President Saddam Hussein that British bombers were ready to launch immediate raids on Iraq if there was any further interference with the work of United Nations weapons inspectors.

Mr Blair said Britain shared Washington's view that air strikes would be mounted without warning if Iraq's assurances to the UN turned out to be hollow.

The prime minister has been in constant touch with President Bill Clinton throughout the last 24 hours, and was deeply sceptical as he gave Britain's response to the Iraqi climbdown.

"The inspectors have got to carry out their work without any hindrance whatsoever," he said.

Mr Saddam's assurances would be tested "within days rather than weeks" when UN inspectors returned to sites previously barred to them, Mr Blair's official spokesman confirmed. "The slightest obstruction of that will leave the Iraqis open to immediate attack, no warning whatever."

Britain has 12 Tornado GR1 ground attack aircraft on standby in Kuwait, and would carry out one-fifth of any manned bombing raids on Iraq.

That attack could take place "without recourse to any further diplomacy, without going back to the United Nations, without any discussion whatever, and that is broadly accepted now by the international community".

'Obstruction will leave Iraqis open to attack'

Mr Blair set the tone for the tough Anglo-US response when he confirmed he had given the order for the RAF to join the American bombing run on Iraq on Saturday afternoon.

"I will not hesitate to do so again should the circumstances warrant it. There will be no further warning," he said.

"Our quarrel is not and never has been with the Iraqi people, it is with Saddam Hussein and whilst he remains, his menace and our response to it will remain in place, in full."

Despite Britain's close liaison with the US on the Iraqi crisis, Mr Blair has also kept in regular touch with other EU leaders.

*Mr Blair's official spokes*man later said Britain welcomed a statement issued by Jacques Chirac, French president, last night.

"We welcome in particular his very clear statement that Baghdad must understand that it faces an immediate threat of the use of force if there is any new breach of co-operation," he said.

Downing Street refused to criticise Kofi Annan, UN secretary general, for his immediately warm response to the Iraqi letter. Mr Blair's spokesman said Mr Annan had played "a positive role" in helping to resolve the crisis.

INTERNATIONAL BRINKMANSHIP IRAQI LEADER HAS REWOUND THE FILM TO WHERE IT WAS LAST FEBRUARY

US and UK wrong-footed by climbdown

By David Gardner, Middle East Editor

Saddam Hussein set a new benchmark in international brinkmanship on Saturday night. Whether he knew it or not, US bombers had taken off by the time he fired off his letter, promising to co-operate with United Nations weapons inspectors he forced to withdraw from Iraq last week.

The B-52 bombers, armed with cruise missiles, were turned back. But the Iraqi leader's last-minute climbdown has politically wrong-footed Washington and its British ally, making it difficult to go ahead with the heavy attack they planned on the Saddam regime's military infrastructure.

Both Washington and London feared, as they did during last winter's two standoffs with Baghdad, that Mr Saddam would catch them on the hoof. He would back down just enough to make it difficult to justify air-strikes, but not enough to meet their security concerns about what he may have left in his armoury of chemical and biological weapons. And that is more or less what he has done.

His initial letter, to Kofi Annan, UN secretary general, was dismissed in Washington as "totally unacceptable", because it was accompanied by a nine-part addendum. This set out how the UN should conduct a promised review of whether Iraq has complied enough on disarmament to get the eight-year old embargo on its oil exports lifted.

But with the UN Security Council in session, a further clarification came from Baghdad saying that its offer to resume co-operation with Unscom, the UN weapons inspectors, was "unconditional" and that the earlier annexe was merely an Iraqi wish-list.

What is certain is that Mr Saddam's move was enough to reopen the divisions inside the Security Council, and between Washington and its Arab allies, over whether a new assault on Iraq should go ahead. Already yesterday Prince Sultan, the Saudi defence minister, said the US would not be allowed to use its bases in Saudi Arabia – the launch-pad for the 1990-91 Gulf war – to attack Iraq.

In other words, the Iraqi leader has rewound the film to where it was last February, when his partial obstruction of Unscom was not enough to convince France, Russia and the Arab states that bombing would improve prospects for containing him.

The US and the UK this time had been able swiftly to build up momentum for military action, mainly because Mr Saddam had in effect closed down Unscom, stopping new inspections and all monitoring of previously uncovered weapons sites. This frontal challenge to Security Council resolutions left those sympathetic to Iraq's plight without diplomatic cards. Mr Saddam is now trying to pull back into the realm of diplomatic ambiguity where he is more evenly matched against his adversaries.

The US and the UK were yesterday insisting the crisis, and the threat to Iraq, was by no means over. But what might well have petered out over the weekend is the clear, swift path they had been taking towards dealing with Mr Saddam. As *al-Thawra*, the ruling Iraqi Ba'ath party newspaper, exulted yesterday: "We have pulled the rug from under the feet of the American administration."

As the Iraqi annexe on the sanctions review shows, Baghdad's objective is to focus on the oil embargo. *The US and UK, for their* part, will work to keep the focus on Mr Saddam's non-conventional weapons arsenal, and the threat this poses to Iraq's neighbours.

As a result of the previous two confrontations Baghdad managed to get the issue of sanctions back on the UN agenda, and through the Memorandum of Understanding Mr Saddam signed with Mr Annan in February, to get an undertaking that the oil embargo would be reviewed if Iraq complied on weapons.

At the end of last month, however, the "comprehensive review" of compliance and sanctions promised by the UN did not contain any reference to the critical paragraph in Security Council Resolution 687, the cornerstone of the sanctions regime put in place after Mr Saddam's surrender in 1991.

The US, which has regularly insisted that sanctions should stay until Mr Saddam goes, prevented mention of Paragraph 22 of Resolution 687, which explicitly states that once Iraq is certified free of weapons *of mass* destruction the oil embargo will be lifted. If the US and UK hold off from military action, then Paragraph 22 is the diplomatic ground on which this confrontation will continue.

In Washington and London yesterday, senior officials said they would put Iraq's co-operation assurances to the test quickly and vigorously. "This time Saddam has to mean what he says and this time there will be no let-up in the pressure on him to stick with the agreement," said Robin Cook, UK foreign secretary.

But however intrusive any new weapons inspections, there remains the likelihood that Unscom will not turn up anything new – partly because it has already destroyed most of Iraq's arsenal and partly because biological weapons agents, the main remaining danger, are easy to hide or to recreate. And if Unscom finds nothing, pressure will grow to lift the oil embargo.

This confrontation, moreover, because it has brought assumptions that military action would go ahead and Unscom's role inside Iraq would be over, has moved forward the debate on how to contain Mr Saddam.

Blanket sanctions are seen to have strengthened his grip on power. The debate had begun shifting towards alternatives such as external deterrence on the cold war model – the threat of proportionate retaliation any time Iraq threatens its neighbours – with a change in the sanctions mix to focus more on screening Iraq's imports.

LEGAL NOTICES

Company No. 2669825

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PNG ENFIELD LIMITED

NOTICE IS HEREBY GIVEN in accordance with section 175 of the Companies Act 1985 that on the 10th November 1998 the above named company ("the Company") approved a payment of £124,187 out of capital for the purpose of redeeming 124,187 of its own redeemable preference shares; that the statutory declaration and auditors' report required by section 173 of the Companies Act 1985 are available for inspection at the Company's registered office at 6th floor, Thavies Inn House, 3-4 Holborn Circus, London, EC1N 2HL; and any creditor of the Company may at any time within the 5 weeks immediately following the aforementioned date of the resolution for payment out of capital apply to the Court under section 176 of the Companies Act 1985 for an order prohibiting the payment.

Dated 10th November 1998

Peter Gross
Director

FEDERATIVE REPUBLIC OF BRAZIL
STATE OF CEARÁ
SECRETARY OF URBAN DEVELOPMENT AND ENVIRONMENT – SDU
WATER AND SEWER OF CEARÁ COMPANY – CAGECE
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IRAQI WEAPONS STAND-OFF REGIONAL LEADERS MUST REASSESS STAND ON SANCTIONS

Arab states forced to re-think strategy

By Mark Huband in Cairo

US President Bill Clinton's decision yesterday to accept Iraqi assurances of full co-operation with UN weapons inspectors will force Arab states to reassess their strategy towards the Iraqi regime, which continues to be viewed with immense suspicion.

Arab leaders throughout the region have for the past week called upon Saddam Hussein, Iraq's president, to back down from his decision on October 31 to end co-operation with weapons inspectors. Although they had opposed the threatened US and British air strikes, that stance, however, is unlikely to lead to an improvement in their relations with Baghdad.

"With the decision of the Iraqi government to rescind the previous decision, I believe a very important step in the right direction has already been expressed," Amr Moussa, Egypt's foreign minister, said just before Mr Clinton's statement.

"Now we are not talking about military strikes. We are talking about an exchange of views and letters and commitments. So we must give this process a chance. I believe this is a very important opening and the problem we hope will be defused," he said.

But with US opposition to the Iraqi regime as strong as ever, such an exchange of views seems unlikely.

Before Iraq's offer to resume co-operation with UN weapons inspectors, Arab states appeared resigned to air strikes being launched. Meanwhile, none had offered to mediate and leading Arab states had blamed Iraq fully for the crisis.

Arab states will now be forced to clarify how far they are prepared to go to press for an easing of the crippling sanctions imposed on Iraq, if such action allows the rejuvenation of a regime which the US now appears determined to overthrow.

Iraq's leaders regard the continuing economic sanctions as a weapon intended not only to undermine the government but to lead to its downfall. Mr Clinton's statement yesterday will be seen in the region as confirming this suspicion.

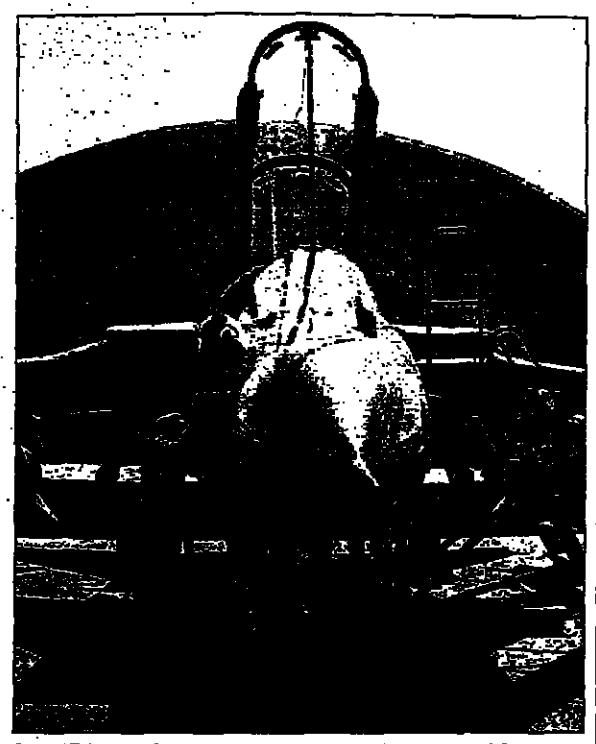
Mr Clinton also made it clear yesterday that he would prefer Unscom weapons inspectors to remain in the country, as a way of retaining close surveillance of the regime. This will intensify Iraqi and regional accusations that the weapons inspectors are little more than spies.

Now Arab states expect to see what Mr Clinton called yesterday growing US support for "forces for change" inside Iraq. He yesterday cited a recent rapprochement between rival Iraqi Kurdish factions as an example of this support. Regional suspicion of Mr Saddam remains strong among Arab states. But their opposition to air strikes has stemmed more from the difficulty of justifying such acts to their own populations than from support for Mr Saddam.

With the US now apparently intent on overthrowing the Iraqi government, regional states will be forced to adapt their policies to an increasingly complicated long-term US strategy likely to put its relations with key allies in the region under growing pressure.

Saudi Arabia's announcement yesterday that it would not allow strikes against Iraq to be launched from bases on its territory came after Iraq appeared on Friday to have reversed its decision not to co-operate with the weapons inspectors, and was clearly intended to boost diplomatic initiatives. The US has 6,000 military personnel and 120 fighter aircraft stationed in Saudi Arabia.

Egypt, along with other Arab states, had opposed military action but had been urging Iraqi moderation rather than actively seeking to end the crisis.



An RAF mechanic checks a Tornado bomber deployed in Kuwait and ready to assist in any US strike on Iraq Reuters

SECURITY COUNCIL

Members mull Iraq's climbdown

By Robert Graham in Paris and Our International Staff

The United Nations Security Council was in session last night to debate Iraq's 11th-hour acceptance of arms inspections and its commitments to comply with UN resolutions.

The Council members, the US, UK, France, Russia and China, were expected to draft a statement following their failure to arrive at a conclusion on Iraq's initial moves on Saturday night.

Iraq's ambassador to the United Nations told the Security Council that Baghdad had rescinded its ban on the weapons inspectors unconditionally and had later revised its letter to try to meet US objections.

Iraq's initial move split the Council, which was unable to reach agreement on Saturday on whether to accept the offer.

While the US rejected it, Russia, China, France and other Council members welcomed Baghdad's decision.

The Council was yesterday also expected to discuss whether to send inspectors from the UN Special Commission (Unscom), charged with overseeing the removal of weapons of mass destruction, back to Baghdad.

France, which played a big part in resolving the previous Iraqi crisis in February, was quick to welcome the last minute climbdown by Baghdad. However, it took a 50-minute, three-way conversation among President Jacques Chirac, President Bill Clinton and Tony Blair, UK prime minister, to smooth out potential misunderstandings over the next US moves to follow the Iraqi decision to resume co-operation with the United Nations weapons inspectors.

Iraqi President Saddam Hussein had sought to create divisions in the ranks of the Council in his letter by addressing a special annexe to France, along with China and Russia. Throughout the present crisis, France has refused to endorse any US military action against Iraq but equally had warned Baghdad that it had no support for its policy of refusing to co-operate with the UN.

France remains sympathetic to Iraq's demand for a clear calendar that would show the steps necessary to remove the crippling UN embargo. This marks a clear distance from the position spelled out yesterday by Mr Clinton. Paris also believes calls for a change of regime in Baghdad as made by the US president yesterday do little to encourage the Iraqi strongman to co-operate on anything other than a minimal basis.

China, which has been pressing for a peaceful resolution of the crisis, yesterday welcomed Baghdad's latest attempt to avert conflict. A foreign ministry spokesman said: "We hope the Iraqi side will honour its pledges and sincerely implement all relevant Security Council resolutions."

APEC MALAYSIA REJECTS CANADIAN 'CIVIL SOCIETY' INITIATIVE

Human rights call met with hostility

By Peter Montagnon and Sheila McNulty in Kuala Lumpur

Apec's trade liberalisation agenda was further complicated over the weekend after Canada took a robust stance on human rights and two of its cabinet ministers had lunch with Wan Azizah Wan Ismail, wife of Malaysia's jailed former deputy prime minister.

Canada also formally proposed that the Asia-Pacific Economic Co-operation forum should set up a task force to look at ways of developing a more civil society in the region.

Lloyd Axworthy, foreign minister, said he had also used a bilateral meeting with his Malaysian counterpart to express concern over the trial of the former deputy prime minister, Anwar Ibrahim, on sex and corruption charges.

The Canadian initiative produced a hostile response from their Malaysian hosts.

A meeting between Sergio Marchi and Rafidah Aziz, trade ministers, was cancelled and Mahathir Mohamad, Malaysian prime minister, rejected the task-force idea. "If people keep on widening things, then we might end up becoming another United Nations," he said. "We'll only be able to talk and do nothing."

Madeleine Albright, US secretary of state, also met Dr Wan Azizah, saying the US was concerned that her husband receive "due process and a fair trial".

Canada's move put it in the lead on human rights in Apec and is in stark contrast to last year's Vancouver summit when the government of Jean Chrétien, prime minister, was accused of excessive police force in keeping demonstrators away from former Indonesian President Suharto.

Canada argues it is impossible to divorce trade liberalisation from other freedoms. "If we are to build an Apec community, we need to engage our respective peoples," said Mr Marchi. Ministers also rejected suggestions that their initiative represented unwarranted attempt to interfere in Malaysia's domestic affairs.

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Mahathir unable to banish spirit of Anwar

By Peter Montagnon and Sheila McNulty

Anwar Ibrahim may be in jail but his spirit is haunting the Apec meeting in Malaysia and putting Mahathir Mohamad, Malaysia's prime minister, on the defensive as host.

Many delegates from the 20 nations and Hong Kong in attendance had direct dealings with Mr Anwar as finance minister and deputy prime minister before he was sacked abruptly in September for having "low morals". They feel compelled to express concern about the way he was detained incommunicado for nine days, only to emerge bruised with a black eye, alleging police brutality. Mr Anwar charges he is being targeted for becoming a political rival to Dr Mahathir.

Dr Mahathir tried to remove Mr Anwar from the agenda of the Asia-Pacific summit by suspending his trial on 10 charges of corruption and sodomy, but the trial's opening proceedings have already yielded such extraordinary insights into how Malaysia works that Mr Anwar's treatment has inevitably become a summit issue.

Demonstrators have been kept away from the neo-baroque hotel where the summit is being held. But around 1,500 people paraded through central Kuala Lumpur on Saturday and shots were fired in a scuffle with plain clothes police.

Yesterday Dr Mahathir shrugged off the demonstrations as well as the reluctance of some participants to meet him. Malaysia was calm and able to play the host, he said. "We will try and be hospitable to everyone, even if they don't want to talk to us."

Even Malaysia's normally reticent Asian neighbours, such as the Philippines, Indonesia and Thailand, expressed concerns before the meeting began. In testimony to the trial, it was alleged that Malaysian police were ordered by Mr Anwar to "neutralise" his accusers through threats and intimidation.

Dr Mahathir insists the testimony does not cast a shadow on the police. But the revelations of police tactics have shaken the nation as well as some summit visitors.

The trial has revealed that Dr Mahathir first heard of the allegations against Mr Anwar some years ago, and many Malaysians believe the prime minister only made them an issue this year when Mr Anwar was rapidly gaining support.

This bolsters the theory that the case is largely political. Mr Anwar, too, is doing his best to make it so, shouting charges against Dr Mahathir during court proceedings. It is clear neither side will back down. Against this background, it is inevitable that politics intrude into the summit.

Boost for Brussels over illegal state aid

By Emma Tucker in Brussels

The European Commission will be granted new powers to recover illegally paid state subsidies under rules expected to be agreed by member states today.

The proposals will stop companies using repeated appeals to national courts to delay repayment of aid that has been outlawed by Brussels.

According to officials, up to half the Commission's demands for repayment of aid since 1984 have been ignored, making a mockery of its role as Europe's competition watchdog.

"The Commission has never been able to recover aid in Germany more quickly than eight years," said an official.

At present, companies are able to delay handing back illegal aid by securing injunctions from local judges, allowing them to benefit from the subsidies while the appeals are heard.

The new rule states that all aid subject to a Commission investigation has to be recovered immediately, and that member states must make every endeavour, under national law, to get it back.

"Sometimes there has been implicit collusion between a member state and companies to delay recovery," said a Commission official.

The recovery rule is one of a package of measures that puts the Commission's role as state aid policeman on a more secure, legal footing. Diplomats believed the qualified majority of votes needed to approve the package would be reached at a Council meeting today.

Previous attempts to get agreement were thwarted mainly by Germany, France and Italy.

These countries are understood to have dropped their objections, in a trade-off that will require the Commission to complete all state aid investigations within an agreed period. This would give the Commission two months to decide whether state aid contravenes EU rules, and a further 18 months to complete the investigation.

The regulation also includes plans to slash the amount of time spent translating documents, which delays cases for several months. Member states are likely to authorise the Commission to reduce the number of translations at the opening of an investigation.

GERMAN-RUSSIAN RELATIONS

Schröder aims to bolster ties with Moscow

By Frederick Stüdemann in Berlin

Gerhard Schröder, German chancellor, arrives in Moscow today for a two-day visit aimed at broadening German-Russian relations in preparation for the post-Boris Yeltsin era.

In what German government sources describe as "an end to sauna politics", Mr Schröder is determined to spend much of his two-day visit getting to know a wide range of Russian politicians and businessmen. Mr Yeltsin, the ailing Russian president, and Helmut Kohl, former chancellor, had enjoyed a *close personal friendship*. They once, famously, met in a sauna.

"We want to diversify the relationship, which, in the past, was very focused [on Yeltsin]," a government source said.

Bonn also hopes Mr Schröder's visit will mark the first step towards the formulation of a common policy towards Russia by the member states of the European Union and the Group of Seven leading industrialised countries.

Germany plans to make relations with Russia a theme of its presidency of the EU in the first half of 1999, and also hopes the G7 will adopt a common strategy towards Russia at a summit in Cologne next spring. In this context, Mr Schröder is not expected to place great emphasis on outstanding interest payments on German *loans to Russia*, as Bonn hopes to reach an agreement on this issue as part of a wider EU and G7 settlement. Mr Schröder is, however, expected to underscore the west's position that Russia will not get further financial assistance until it has developed a plausible economic policy.

There is "little point in throwing money into a vacuum", said a government source in Bonn, who added the burden was on Russia to make substantial changes to its political and economic institutions. While calling for an end to the "chequebook diplomacy" of the past when Germany was the biggest western lender to Moscow, the source said Bonn was prepared to offer *assistance on a consultative* level. Mr Schröder's emphasis would be "on the quality, not quantity, of advice".

As well as meetings with Mr Yeltsin and Yevgeny Primakov, prime minister, Mr Schröder will also meet Alexander Lebed, the populist ex-general and possible presidential candidate, Gennady Zyuganov, leader of the Communist party, and Grigory Yavlinsky, a prominent reformer.

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Kuriles accord unlikely by 2000

Agreement between Russia and Japan over their territorial dispute may not be reached in time for the deadline of 2000 offered when Boris Yeltsin, Russian president, met Keizo Obuchi, Japanese prime minister, last week, **reports Andrew Jack from Moscow.**

Russia submitted secret proposals for resolving tension over the islands, which it calls the Southern Kuriles, when officials from the two countries met in *Moscow on Thursday and* Friday.

Russia's occupation of the islands since the final phase of the second world war has prevented a peace treaty from formally being signed, and has limited diplomatic and economic relations. The two leaders had expressed their belief that a treaty could be signed by 2000.

But Mr Yeltsin's spokesman hinted at the weekend that negotiations over the disputed border might extend beyond the signature of a peace treaty.

Anti-smoking groups call for slower look at proposed deal

By Richard Tomkins in New York

US anti-smoking groups were yesterday preparing to unleash a campaign to halt a proposed $206bn settlement struck by tobacco companies, *accusing its architects* of trying to rush it through without public scrutiny.

The American Heart Association called on the negotiators to disclose full details of the deal – which would end the worst of the litigation they face – and to allow "a reasonable time frame for public review of this important document".

Action on Smoking and Health, a not-for-profit anti-smoking group, said it had already started writing to judges in the most populous states urging them to delay approval of the deal pending *a public review.*

"If the offer is really so good, why does it have to be decided in four days? Why not have 30 days in which to study it?" asked John Banzhaf, the organisation's executive director.

At the end of last week, the tobacco industry agreed to pay out $206bn over the next 25 years to compensate states for the cost of treating sick smokers under the Medicaid public health scheme. It is the biggest civil liability settlement ever.

The pay-out is in addition to $40bn that the industry has previously agreed to pay to four states in out-of-court *settlements, making a total* of nearly $250bn.

The states were represented in the negotiations by the attorneys-general of eight states. The remainder are being given until Friday to decide whether to sign up.

Most states are thought likely to agree because they stand to gain more from the settlement than they would in the courts, even supposing they won.

The eight attorneys-general are today expected to announce that a deal has been reached, but they are not proposing to publish the *text of the document until* the other states have signed up.

Mr Banzhaf accused the negotiators of selectively leaking details such as the proposed restrictions on outdoor advertising, while keeping quiet about less attractive elements of the deal that could provoke hostility.

For example, Mr Banzhaf said, "reliable sources" had told him the deal applied *only to the US tobacco subsidiaries* of the companies signing up to it, giving the parent corporations immunity from liability.

That would enable the parent companies to siphon off assets from the subsidiaries, then declare them bankrupt at a later date, so terminating their financial obligations.

The settlement could also provoke a bitter row over *fees between the states and* the trial lawyers who had advised them.

The laywers had been working on a contingency fee basis, expecting to pick up 30-50 per cent of any winnings. But the settlement proposes capping total payments to outside counsel at a maximum of $500m a year.

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Part of a Marlboro billboard being moved in West Virginia. The tobacco industry has agreed to pay out $206bn AP

UN CLIMATE CONFERENCE DETAILS OF MECHANISMS FOR EMISSION CUTS BY LATE 2000

Greenhouse gas deadline pact

By Vanessa Houlder in Buenos Aires

A final burst of round-the-clock negotiations at the United Nations climate *change conference in Buenos* Aires has secured a deadline of late 2000 for detailing mechanisms for cutting greenhouse gas emissions.

The agreement aims to ensure that reductions set at the 1997 conference in Kyoto, Japan, are met.

In recognition of the urgency of the climate change problem, the 170 governments represented in Buenos Aires also resolved to meet more frequently in an effort to achieve faster progress.

After narrowly averting breakdown of the talks in its last few hours, relieved politicians hailed the Buenos Aires conference summit as a step forward in the inter*national effort to slow down* global warming.

"After hard negotiation, we have achieved a significant success," said Maria Julia Alsogaray, Argentina's minister of natural resources and sustainable development, who presided over the conference.

She said the agreement would enable early implementation of the Kyoto protocol, which requires industrialised countries to cut emissions of gases believed to contribute to global warming by 5.2 per cent of 1990 levels by 2008-2012.

Priority will be given to sorting out the details of the Clean Development Mechanism, which will give an *incentive for industrialised* countries to finance clean technology projects in developing countries.

Other mechanisms include the joint implementation of emissions reduction projects and emissions trading, by which countries that exceed their targets for reducing emissions can sell credits to other countries.

The conference made concrete progress on a few other issues, such as support for vulnerable countries to adapt to climate change and technology transfer.

In addition, there will be more frequent international meetings at a political level to give guidance to civil servants grappling with the large number of contentious issues still to be decided.

The decision to inject more political involvement into the negotiations over *the next two years reflects a* recognition that the civil servants negotiating at Buenos Aires achieved little until the arrival of ministers in the last few days.

John Prescott, UK environment minister, described the existing way of conducting the negotiations, which left little time for real decision-making, as "nonsense".

Failure of the talks was narrowly averted during the last few hours.

Negotiations broke down *at 3am on Saturday when* representatives from India, China, Saudi Arabia, Venezuela, Tanzania and the Philippines walked out over the funding of monitoring procedures in developing countries.

"It was quite a serious situation," said Mr Prescott. He was appalled that the talks had risked failure over projects he said were worth £15m ($25m) a year.

Eventually, agreement was reached when the developing countries were presented with a "take it or leave it" package that included the extra finance they required.

The outcome of the talks met with disappointment from environmental groups. "This is turning into a trade and economic negotiation – climate is getting pushed further and further down the agenda," said Greenpeace. *Friends of the Earth said:* "The urgency of averting dangerous climate change has been lost in the Buenos Aires inaction plan." World Wide Fund for Nature welcomed the "slight progress" but described the talks as "trench warfare among bureaucrats".

NEWS DIGEST

KOSOVO FIGHTING

Serbia offers direct talks with ethnic Albanians

Serbia threw down the gauntlet over its troubled Kosovo province yesterday with an offer to host direct, internationally monitored negotiations with the ethnic Albanian majority.

The proposal by Serbian President Milan Milutinovic did not appear to have been co-ordinated with either leaders of the ethnic Albanians who make up 90 per cent of Kosovo's population or the western mediators trying to broker a lasting settlement.

A statement from Mr Milutinovic's office, carried by Tanjug news agency, said Belgrade would invite ambassador Christopher Hill, the special US representative for Yugoslavia, the ambassadors of the Russian Federation and of China, and the ambassador of Austria, holder of the European Union presidency.

Serbia has previously offered talks on Kosovo, but ethnic Albanian leaders have refused, saying Belgrade must first withdraw its forces, whose campaign against the guerrillas drove more than 250,000 people from their homes. **Reuters, Belgrade**

KURDISH LEADER IN ITALY

Ankara seeks Ocalan back

Turkey yesterday pressed Italy for the extradition of Abdullah Ocalan, the Kurdish rebel leader, saying that granting him asylum would amount to "opening doors to terrorism".

Kurds in Italy, Germany, Austria and Romania launched protests and hunger strikes in fervent shows of solidarity with the rebel leader. Kurds came to Rome by bus and car from across western Europe for a 1,500-strong protest outside the military hospital where Mr Ocalan is believed held under tight security.

Mr Ocalan was arrested on Thursday *at Rome airport* as soon as he stepped off a flight from Moscow, where he had sought asylum after fleeing his hideout in Syria.

He leads the outlawed Kurdistan Workers party, which has been fighting for Kurdish autonomy in south-east Turkey since 1984. The conflict has killed nearly 37,000 people. **AP, Ankara**

PAULA JONES SETTLEMENT

Outlook improves for Clinton

President Bill Clinton's senior legal and political advisers are hoping last week's agreement to settle the Paula Jones sexual harassment case will take yet more steam out of impeachment proceedings against Mr Clinton, scheduled to begin in earnest this week.

On Friday, the president agreed to pay Ms Jones $850,000 to drop her case, which led indirectly to the Monica Lewinsky impeachment investigation. The agreement did not include any admission of wrongdoing or apology from the president, but was, his lawyers said, born of a desire to bring to an end the four-year lawsuit. Ms Jones made it clear, in settling her case with the president, that she was rejecting an additional $1m offered her by a New York property developer.

The House of Representatives judiciary committee will hear testimony on Thursday and Friday from Kenneth Starr, the independent prosecutor. A growing number of Republicans are anxious to find ways of abandoning the case. **Gerard Baker, Washington**

BURMESE JUNTA

Foreign minister replaced

Burma's military government replaced its foreign minister at the weekend, ending the tenure of Ohn Ghaw, long the international face of the country's junta. Win Aung, a military officer who has been in the foreign service for a decade and is currently Burma's ambassador in London, was named to replace Mr Ohn Ghaw.

Mr Win Aung is expected to bring new vigour to the foreign minister's post, which has the task of rejecting charges of human rights abuses and lack of democracy in the country at such forums as the UN and the Association of South East Asian Nations. In past years, Mr Ohn Ghaw appeared to grow tired of defending a military junta that as a civilian he was not a part of and had no influence over.

Mr Win Aung is said to be close to General Khin Nyunt, military intelligence chief and architect of Burma's recent opening to the outside world. **Ted Bardacke, Bangkok**

TECHNOLOGY EXPORTS

India angry at US blacklist

India has said it will protest to the World Trade Organisation against the US decision to bar sensitive technology exports to 40 government agencies and 200 related subsidiary companies, a component of US sanctions against India for conducting nuclear tests.

Ramakakrishna Hegde, commerce minister, said on Saturday that by issuing the blacklist last Friday, including altogether 300 Indian and Pakistani government "entities", the US had violated "WTO philosophy and rules".

The US list formed part of a series of sanctions, some since lifted, imposed after India's nuclear tests in May and Pakistan's matching explosions. ***Mark Nicholson, Delhi***

CONTRACTS & TENDERS

TENDER NO: 77/31113/4718

Mobarakeh Steel Company intends to purchase **6000 M/TON HIGH CARBON FERRO MANGANESE** with following specification and information:

MN : MIN 70%
C : MAX 5.5 - 8%
SI : MAX .3%
S : MAX 0.05%
P : MAX 0.1%
SIZE : 10 - 50MM

Interested bidders may obtain a set of bidding document by the submission of a written application and payment of nonrefundable fee of USD 1000 in favour of Mobarakeh Steel Company, through Bank Markazi Iran account no: 138.
All bids must be delivered to below office before 17/01/99

MOBARAKEH STEEL COMPANY
15 KMS SOUTHWEST OF MOBARAKEH
P.O. BOX 167 ESFAHAN IRAN
RAW MATERIAL AND ENERGY PURCHASING DEPARTMENT
FAX: 0088 31 327512 + 324324 TEL: 0098 3355 3816
MOBARAKEH STEEL COMPANY

Jakarta detains political activists

By Sander Thoenes in Jakarta

Indonesia's government began detaining political activists over the weekend in response to renewed rioting and bloody clashes between protesters and police. But students vowed to rally again and demanded the sacking of the military's chief commander.

Yunus Yosfia, minister of information, said police were searching for the signatories to an appeal for the resignation of the government of President B.J. Habibie. An outspoken retired army general was reported to have been taken from his home for questioning yesterday. Lt Gen Kemal Idris is head of the National Front, a group of intellectuals and former military officers, which has campaigned to replace Mr Habibie with a transitional government led by community leaders.

A former political prisoner and two other men had already been detained. A popular actress who had supported student protesters but did not sign the appeal went into hiding following rumours that she too was wanted.

President Habibie ordered Gen Wiranto, the military's chief commander, to crack down on what he called "subversive movements". Bloody clashes between protesters and police on Friday had sparked a rally of more than 40,000 students and city residents on Saturday followed by sporadic looting.

Gangs plundered, stoned and torched dozens of buildings in northern Jakarta, home to many ethnic Chinese, a minority resented for their relative prosperity. Gangs took over parts of the main toll road and robbed passers-by.

While marines managed to calm some of the crowds, much of the military stood by or stayed away, forcing shop owners to form militias to protect their property. The looting on Saturday appeared much less widespread and violent than in May and some supermarkets had re-opened yesterday.

Hospitals in Jakarta listed five people dead. At least 11 died in clashes between protesters and soldiers on Thursday and Friday, the most violent street battles in two years.

Three student groups called a three-day national strike to protest against police brutality. They urged opposition groups to form a "transitional authority", encompassing both a new parliament and a new government. But most students were more adamant about the sacking of Mr Wiranto than about Mr Habibie's resignation.

Indonesian rioters put military chief in the firing line

Weekend clashes raise spectre of events which brought down Suharto, but this time there is a difference, says **Sander Thoenes**

Jakarta riot police relax yesterday: observers have expressed surprise at their poor discipline AP

Riots and clashes between students and police at the weekend offered an eerie parallel to the May events which brought down former President Suharto, but this time the loser appears to be the military, rather than President B.J. Habibie.

Students, opposition groups and prominent Indonesians called for the resignation of General Wiranto, chief commander of the armed forces, following the deaths of at least seven students shot or beaten to death by police and army officers on Friday.

Long considered a moderate and potential contender for the presidency, Gen Wiranto had disappointed many in the past few months by dragging his heels on political reforms and ignoring an investigation which found that soldiers had provoked the May riots.

"He is much weaker, more confused and conservative than people think," one diplomat said. "He is just reacting, improvising."

Gen Wiranto riled many more last week when he defended the use of armed civilians to maintain law and order in the city, even though these gangs had only provoked clashes with students and slum dwellers.

The military were already facing student demands for their removal from politics and from the parliament, where they now hold 75 seats. The People's Consultative Assembly, the highest legislature, last week disappointed protesters by merely reducing the presence of the military rather than eliminating it.

Some 40,000 students and other protesters peacefully reiterated these demands in front of parliament on Saturday. They also demanded a trial of Mr Suharto, and some called for Mr Habibie's resignation. But many students said they did not feel adamant about Mr Habibie, for lack of an alternative.

Mr Habibie is widely dismissed as a stooge of Mr Suharto, but has gained some tolerance for initiating limited political reforms. He has also taken credit for a rebound of the rupiah, a drop in inflation and an influx of foreign aid.

His government yesterday published an updated agreement with the International Monetary Fund, signed last week, which said, "Output could finally stabilise during the next one to two quarters and modest growth could resume in mid-1999." That stabilisation hinges on the rupiah, however, which may well take a beating from this weekend's violence.

Rather than sacrifice Gen Wiranto, Mr Habibie ordered him to crack down on what he called "subversive movements", presumably referring to a group of activists and retired generals which had called for his resignation.

Mr Habibie accused the "subversives" of donning student jackets and abusing the student movement.

Diplomats suggested Mr Habibie was merely looking for a way to discredit the protests without angering the students, who enjoy widespread support in society.

Some speculated the military had split and the Marine Corps had joined the students. Marines marched with protesters on Saturday but appeared more intent on pacifying the crowd, and were guarding the parliament compound rather than rousing protest against the government. Diplomats suggested they might have ignored orders to shoot, but were not about to rebel.

"You don't see any factions in the military," Umar Juoro, an economist, said. "But Wiranto himself does not seem to have strong control over the local commanders."

Foreign military attachés on site had expressed surprise at the poor discipline and strategy of the riot police and soldiers on Friday.

Mr Habibie appears loath to sacrifice Mr Wiranto, however. "Wiranto protects the Habibie government," Mr Juoro said. "If one of them hits the other too hard they will get hurt too."

CORRUPTION FIGHT NEW LAWS PLANNED TO OVERSEE PURCHASES

Beijing to regulate public procurement

By James Harding in Shanghai

China is drawing up its first law to regulate government procurement, a measure to fight corruption and waste that costs the government billions of dollars each year.

Kickbacks and corruption last year amounted to more than \$5bn – or roughly 5 per cent of the RMB923bn (\$111bn) China spent on government purchases – according to a report yesterday.

Zhu Shaoping, a legislative expert, was quoted by the official China Daily yesterday saying: "A law is urgently needed... to establish a new pattern of government purchasing to replace the problematic conventional practices."

As well as the billions of dollars lost through corruption, the unregulated and unsupervised system of state buying by "makeshift bodies from different parts of the government" has fostered monumental overspending and waste, the report said.

In trial areas where the government has already introduced a special authority to oversee spending and started public bidding for large purchases, costs have tended to be cut by 10-15 per cent. In some cases, the government has saved 30-50 per cent.

The proposed legislation is also being billed as China's effort to reform the system of government purchasing to converge with international practice, part of Beijing's application to join the World Trade Organisation.

The plans for a government purchasing law, which the report says is not likely to be enacted before 2003, come as Beijing has sought to clamp down on the widespread corruption, which represents a serious strain on China's already overstretched budgetary resources.

Separately, China is expected to approve investment funds and credit guarantee funds to encourage the development of high-technology companies, it was reported yesterday.

Zhang Jingan, director of the high-tech industry development centre of the Ministry of Science and Technology, was quoted by the China Daily as saying that the venture capital funds would be used to channel more money into small and medium-sized firms.

Guarantee funds are expected to help small and medium-sized companies obtain loans from the big state banks, which have tended to extend credit predominantly to large state-owned enterprises.

Economic woes sway voters in Okinawa

By Michiyo Nakamoto in Tokyo

Economic anxieties overrode opposition to US military bases in elections for the Japanese governorship of Okinawa yesterday, which resulted in victory for Keiichi Inamine, a local business leader.

The election of Mr Inamine highlights growing concern in Okinawa, one of Japan's most economically depressed prefectures, that strong resistance to the US military presence was hurting the local economy. His main campaign pledge had been to focus on reviving the economy.

Mr Inamine's victory over Masahide Ota, the incumbent, who had called for the removal of all US bases from the prefecture, raised the prospect of a breakthrough over Okinawa. Mr Inamine won approximately 370,000 votes compared with Mr Ota's 330,000, according to preliminary results.

The vote will also have been a relief to the ruling Liberal Democratic party ahead of an official visit by Bill Clinton, US president, this week.

The Japanese government has been in a bind over Okinawa, where strong local resentment towards the large number of US military bases had frozen an agreement with the US to transfer the Futemma air base to an offshore heliport.

As governor, Mr Ota had called for Futemma to be moved out of Okinawa. His opposition to its transfer within the prefecture, combined with local protests over the offshore heliport plan, had embarrassed the central government, which was prevented from fulfilling its agreement with the US.

Mr Inamine, on the other hand, has been calling for a more co-operative approach on US bases to win central government support for revitalising the Okinawa economy. The prefecture, located close to Taiwan, had an unemployment rate of 8.7 per cent in September, or more than twice the national average. Average income, at 70 per cent of the national average, was the lowest among Japan's 47 prefectures.

Yesterday's election result increases the likelihood that talks between Okinawa and the central government over Futemma and plans to support development of the local economy can resume. These talks had been stalled since early this year, due to Mr Ota's opposition to the heliport plan.

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EUROPEAN UNION FINANCE MINISTERS IN EFFORT TO INCREASE OPENNESS OF EUROPEAN CENTRAL BANK

Chancellor joins push on job creation

By George Parker in London and Robert Graham in Paris

Gordon Brown, chancellor, is joining forces with other left-of-centre European Union finance ministers in an attempt to increase the openness of the new European Central Bank.

Mr Brown hopes the 11 ministers can use their influence to ensure that the independent ECB, which will have control of monetary policy in the euro-zone, puts an emphasis on employment as well as price stability.

He will meet Oskar Lafontaine, Germany's finance minister, this week ahead of the weekend's meeting of the EU finance ministers (Ecofin), and will discuss a draft document to be produced by the 11.

Meanwhile Mr Lafontaine and Dominique Strauss-Kahn, his French counterpart, are due to meet today in Bonn to agree a platform of macro-economic proposals to promote growth and employment in the single currency euro-zone.

The UK is not one of the founder members of the euro, but Mr Brown hopes he can still exert some influence over its development by clubbing together with a powerful left-wing bloc of finance ministers. He is working with them on a statement setting out their principles on the workings of the central bank.

The chancellor's spokesman said it would call for the greater use of counter-cyclical public spending to prevent recessions and create high employment.

There was also a desire to ensure the ECB gave clear explanations of its decisions on interest rates, including the publication of minutes of meetings, he said.

The draft statement, "The New European Way – Economic Reform and the Framework for Economic and Monetary Union", also calls for pan-EU co-operation to ensure job creation.

The UK Treasury appears to attach greater importance to the document than some of its EU counterparts.

Mr Brown is seen in Paris as keen to use the Socialist-Social Democrat platform as a means of getting round Britain's exclusion from the Euro-11 council – the informal body that meets before each Ecofin session to discuss policy relating to the single currency.

Today's meeting between Mr Strauss-Kahn and Mr Lafontaine is part of a regular consultation process but is the first such session with the new Schröder administration in Germany and comes against the background of fast-changing economic opinion with leftwing government now controlling all but four of the 15 EU member countries. The two men will present a common position to EU finance ministers next Monday.

$130m aid for farming crisis

By George Parker, Political Correspondent

Nick Brown, agriculture minister, is expected this week to announce an aid package to farmers of £80m-£90m ($132m-$150m) to alleviate the worst crisis in UK agriculture since the 1930s.

He has persuaded the Treasury that new subsidies are vital to help save thousands of farmers from bankruptcy over the next few months. The aid will be targeted primarily at beef and sheep farmers in upland areas, who have been worst hit by the agricultural recession.

Their incomes have fallen dramatically over the past year, largely as a result of the collapse in export markets because of the strong pound and the economic collapse in eastern Europe.

The problem has come on top of the long-standing difficulties caused by the BSE, or "mad cow" issue, and the European Union ban on British beef exports. Mr Brown was hoping to make the long-awaited statement on farm aid today, although pressure on House of Commons time could delay the announcement until tomorrow.

The package will include just under £50m for beef farmers from the EU's "agrimoney" fund, which compensates farmers for fluctuations in national currencies.

Mr Brown will also reverse planned cuts by the former Conservative government in hill farm subsidies, known as hill livestock compensatory allowances, which help sheep and beef farmers.

The future for hill farmers is bound up in the EU's proposals for reform of the Common Agricultural Policy.

Lord Levene of Portsoken, chairman of Bankers Trust, became the 671st lord mayor of London at the weekend. He will be the last of his ancient line to serve a full term before a mayor is separately elected for the whole of the capital. The lord mayor presides over the City area of the capital PA

UK leads in returns on groups' assets overseas

By Guy de Jonquières

The overseas operations of the UK's largest multinational companies are more profitable than those of leading international competitors, according to research from Oxford University.

The study, based on analysis of more than 200 of the biggest companies from 12 countries, says UK companies' return on foreign assets averaged 7.8 per cent in 1996-97. The average for all companies was 4.8 per cent.

A Department of Trade and Industry report last week said UK companies invested about a third less, and had lower gross fixed tangible assets per employee, than businesses in mainland Europe, North America and Japan.

The study also finds that the profitability of overseas operations has fallen sharply since 1996, when they slipped below those from domestic assets.

It warns that comparing performances is complicated by differing national reporting and accounting requirements and exchange rates.

UK companies' return on overseas assets was more than 1.5 percentage points higher than US companies, and more than double that of Canadian companies – the third-most profitable group. British companies' performance reflected their strong showing in pharmaceuticals, electronics and services, where returns were generally higher than in heavy manufacturing and resources.

Kingfisher, the UK retailer, achieved the highest return on overseas assets of all surveyed, followed by Glaxo Wellcome, the UK pharmaceuticals group, and Coca-Cola, Intel and Microsoft of the US.

The worst performers overall were Japanese and Australian companies, with average returns of 1.3 per cent and 0.3 per respectively.

The study says smaller companies had more profitable overseas operations than big ones, and that there was no clear link between returns on overseas assets and their importance in a company's total business.

NEWS DIGEST

LLOYD'S

Policy set to protect rights in intellectual property

Underwriters at Lloyd's insurance market have developed an innovative way for companies to protect their intellectual property rights, an increasingly significant part of business.

Kiln, a managing agent at Lloyd's, has worked with Ernst & Young, the consultancy, and Hammond Suddards, the law firm, on suitable methods for companies to value and identify risks to their intellectual property rights.

A recent survey by the Association of Insurance Risk Managers found the main concern among their members was intellectual property and brand reputation – even ahead of the millennium bomb software error threat to computers.

Kiln said the significance of intellectual property could be seen in the shift from a production-based economy, founded on land, factory plants and labour, to a knowledge-based economy where ideas drove companies and provided rapid growth.

Citing the make-up of the Fortune 500 list of the largest companies, Kiln said 60 per cent of the organisations on the list in 1975 had disappeared from it by 1995. Even more strikingly, in 1975 more than half the value of all the 500 companies was attributable to tangible assets. By 1995 that figure had dropped to about 25 per cent. Almost half of the intangible assets now in the majority were some form of intellectual property. **Andrew Bolger, London**

LIBERAL DEMOCRAT PARTY

Leader faces 'betrayal' claims

Paddy Ashdown, leader of the opposition Liberal Democrat party, will today face tough questioning and accusations of "betrayal" from some members of his party executive, over his move to strengthen relations with the Labour government.

Mr Ashdown is expecting a rough ride from the 30person executive, which includes grass-roots party activists, although he is unlikely to be defeated in any vote. There is particular anger that Mr Ashdown decided to broaden the remit of the cross-party "Lib-Lab" cabinet committee in secret talks with Tony Blair, the prime minister, and with little consultation. Donnachadh McCarthy, a member of the executive, said: "It is a betrayal of everything Paddy Ashdown ever said he stood for."

However, Mr Ashdown was yesterday unrepentant, and said he was determined his party should play a pivotal role in reshaping centre-left politics. **George Parker, London**

UNFAIR DISMISSAL PROPOSALS

Fears over 'fat cats charter'

Employers are increasingly concerned that government proposals to lift the compensation cap for unfair dismissal could become a "fat cats charter", according to research by a City of London law firm.

A survey of companies by lawyers Fox Williams found they fear abolishing the £12,000 ($19,920) compensation ceiling could expose them to unfair dismissal claims by sacked executives for unlimited compensation.

Even if the government retains a cap and raises it to £50,000, as hinted at the annual Trades Union Conference meeting in September, employers fear an increase in potential liability as awards for unfair dismissal are – in principle – in addition to compensation for breach of an employment contract. **Robert Rice, London**

DRUGS IN WORKPLACE

Number of abusers 'on rise'

Companies are reporting an increase in the numbers of staff who abuse alcohol and take illegal drugs, and are more likely to sack employees who use drugs than those who have a drink problem. A survey of 1,800 personnel staff by the Institute of Personnel and Development found that 46 per cent had received reports of alcohol misuse by staff in the past 12 months, compared to 35 per cent in 1996.

Eighteen per cent of companies have received reports of illegal drug taking by employees – up from 8 per cent in 1996. It is estimated that the economy loses £3bn ($5bn) every year to drink and drug-related illness.

Nine out of 10 companies encouraged staff with an alcohol problem to seek help and counselling and half allowed time off for rehabilitation.

However, almost twice as many companies always dismissed employees found to have used illegal drugs (31 per cent) as sack those who abused alcohol (18 per cent), regardless of the job they did. Eight in 10 encouraged help and counselling with drug abuse but only 38 per cent allowed time off for rehabilitation.

Oonagh Ryden, the institute's adviser, said the difference reflected legal and social attitudes to drugs and alcohol. **Simon Buckby, London**

CONTRACTS & TENDERS

Pre-announcement of Request for Proposal World Intellectual Property Organization

The World Intellectual Property organization (WIPO) is one of the Specialized Agencies of the United Nations System of Organizations. WIPO is responsible for the promotion of the protection of intellectual property throughout the world.

WIPO is preparing to issue a Request for Proposal (RFP) to solicit bids for a Global Information Network for intellectual property offices (known as WIPONET), that is, international high speed Internet connectivity for the use of more than 300 intellectual property offices worldwide.

More information about this global project is made available on WIPO's Web site (http://www.wipo.int/eng/general/scit/wipogin/index.htm).

To respond to the forthcoming Request For Proposal and to receive a copy of the RFP Package when it is released in December, please complete and return the RFP No. PCS/98/046 Package Request Form (available at http://www.wipo.int/eng/general/scit/wipogin/announce/rfp98046/index.htm) to the following address (by mail, fax or e-mail) preferably before November 23, 1998. All requests will be treated with strict commercial confidentiality.

Attn: Mr. William Reymond (william.reymond@wipo.int)
Head, Procurement and Contracts Services (fax: +41 22 338 81 10)
World Intellectual Property Organization (WIPO)
34, chemin des Colombettes
1211 Geneva 20
Switzerland

هكذا من الاصل

WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**

Akzo Nobel Fl0.65
Aon Corpn $0.28
Beazer Group 5p
BES Overseas Srs A FRN Prf $0.48
Bristol & West 8¼% Non-Cum Prf 4.0625p
Burndene Invs 15% Ln 2007 £7.50
Chester Asset Recs No 3 FRN 2003 £1973.70
City Mortgage Rec 1 FRN Feb 2023 £36.63
Do Rec 2 FRN Oct 2023 £40.34
Do Rec 3 FRN Oct 2023 £36.04
Do Rec 3 B £76.57
Do Rec 4 FRN Aug 2028 £44.99
Do Rec 4 B £76.57
Do Rec 5 FRN Sep 2032 £13.92
Do Rec 5 B £87.52
Do Rec 6 FRN Mar 2029 £43.33
Do Rec 6 B £76.57
Coca-Cola 6% Nts 2000 $60
Colgate-Palmolive $0.275
Dagenham Motors 2.75p
Estates & Agency 5p
GESB 8.35% Bds 2018 £41.75
Gieves 0.6p
Hasbro $0.08
Iceland Group 1.8p
Nihon Doro Kodan 9½% Bds 2000 $475
NKK Corpn 6.1% Bds 1999 Y610000
Ocwen Mortgage Lns 1 FRN Jun 2029 £441.88
Do A2 FRN Jun 2029 £683.24
Do M1 FRN Jun 2029 £695.51
Do M2 FRN Jun 2029 £734.97
Do B FRN Jun 2029 £809.49
Pennant Intl 1.2p
Regent Inns 2.4p
Ryan Hotels IR0.8p
Sanwa Finance Aruba FRN Nov 2004 $1543.67
SONAR 1 FRN 2021 £133.75
Do B FRN 2021 £221.89
Do C FRN 2021 £243.06
Tudor 1.5p
Whittard of Chelsea 2.55p
YKK 3.9% Nts 1999 Y390000

■ **TOMORROW**

Aire Valley Finance A1 FRN 2039 £1074.03
Do A2 FRN 2039 £1988.71
Do A3 FRN 2039 £2008.88
Do A4 FRN 2039 £2041.64
Do A5 FRN 2039 £2104.66
British Land 6½% Cv Bds 2007 £32.50
CGU 13.25p
Electricite de France 11¾% Ln 2009/10/11/12 £293.75
Hunting 3p
Lendu 0.6p
Nichirei 5% Bds 2000 Y500000
Sekisui House 5.95% Bds 1999 Y595000
SG Asia Credit Public 3¼% Cv Bds 2003 $37.50
SIG 2.8p

■ **WEDNESDAY NOVEMBER 18**

Abbey National Treas Servs FRN Nts 2002 £1991.23
Aberdeen High Income 2p
Aberdeen Prfd Income 3.625p
Boot (H) & Sons 2.5p
Fairplace Consulting 0.069p
GT Income Growth 1.6p
Merchants Trust 3.75p
Nippon Telegraph & Telephone 7¾% Nts 1999 $77.50
Oriflame Intl Rg 4.5p
Do Br 4.5p
Railtrack 7⅜% Bds 2022 £73.75
Treasury 10% 2004 £5

■ **THURSDAY NOVEMBER 19**

British & American Inv 1.375p
Chime Comms 0.7p
Domestic & General 7.65p
Euro-Vip VRN 2030 $35330.56
Fisher (J) & Sons 1.4p
Frogmore Ests 8% Nts 2007 £800
Hitachi Credit 6⅞% Nts 2001 $66.25
HSBC FRN 2008 $28.21
Korea Exchange Bank Nts 2006 $8085.14
P & O 7¼% Cv Bds 2003 £36.25
Thistle Hotels 1.5p
Treasury 10¼% 1999 £5.25

■ **FRIDAY NOVEMBER 20**

Ardagh IR4.55p
AVCO Trust FRN 2000 £197.86
Bank of Scotland Undated FRN $306.67
Barlows 0.8p
Barratt Developments 6.7p
Blue Circle Inds 4.85p
British Fittings 1.65p
Bryant 3.85p
Cadbury Schweppes 5.8p
Caradon B 2.91156p
CMG 2p
Delphi 2.65p
Fennica 1 A FRN 2025 $3072.42
Do B Nts 2025 $3235.97
Do 2 A1 Nts 2024 FMk20466.90
Do 6.23% A2 Nts 2024 FMk31600
Do B Nts 2024 FMk21928.80
Fintrust Deb 9¼% 2023 £4.625
Hamleys 3.3p
Harvey Nash 1.8p
Intl Energy 1.76p
INVESCO City & Commercial 1.3p
Inv Tst of Guernsey 0.8p
Irish Life IR4.3p
Kingfisher 3.75p
Kyushu Electric Power Inc $65
Laing (J) 3.75p
Do A 3.75p
Lincat 8.7p
Marylebone Warwick Balfour 2.5p
McBride 5p
Norcor 0.7p
Ocean Wilsons 1p
Rugby 1.75p
Seascope Shipping 5p
Sun Life & Provincial 4.4p
United Industries 0.94p
Watts, Blake, Bearne 4.4p
Wells Fargo $1.30
Yokohama 8% Bds 2001 $400.

■ **SATURDAY NOVEMBER 21**

Treasury 12½% 2003/05 £6.25
Wensum 1.65p

■ **SUNDAY NOVEMBER 22**

Brooks Service 1.6p
Conv 10¼% 1999 £5.125
European Inv Bank 10⅜% 2004 £259.375
Index-Lnkd 2½% 1999 £2.4556
RJB Mining 3p
Treasury 14% 1998/01 £7

UK COMPANIES

■ **TODAY**

COMPANY MEETINGS:
Lendu, 3, Clanricarde Gardens, Tunbridge Wells, Kent, 10.30

BOARD MEETINGS:
Finals:
Berisford
Sidlaw Group
Wardle Storeys
Interims:
British Steel
Cropper (J)
Pillar Props
600 Group
Ted Baker
Workspace

■ **TOMORROW**

BOARD MEETINGS:
Finals:
BOC
Cirqual
Interims:
Gt Portland Estates
HW Group
Merchant Retail
Meyer Intl
Northern Foods
Portsmouth & Sunderland
Rebus
Suparule
TGIVodafone
Vosper Thornycroft

■ **WED NOV 18**

COMPANY MEETINGS:
Lincat, Lincat Group Plc, Whisby Road, Lincoln, 9.30

BOARD MEETINGS:
Finals:
Century Inns
Interims:
European Colour
FKI
Hyder
Land Sec
National Power
New Look Group
Safeway

■ **THURS NOV 19**

COMPANY MEETINGS:
Barratt Developments, Plaisters Hall, 1, London Wall, EC2, 2.30
Intl Biotechnology, City Presentation Centre, 4, Chiswell Street, EC1, 3.00
Upton & Southern, 175, Linthorpe Road, Middlesbrough, Cleveland, 11.00

BOARD MEETINGS:
Finals:
Tomkinsons
Interims:
Bradford Prop
Cedar Group
Glenmorangie
Lambert Fenchurch
Martin Currie European
Siebe
Storehouse

■ **FRIDAY NOV 20**

COMPANY MEETINGS:
Pochin's, Pochin's Plc, Brooks Lane, Middlewich, Cheshire, 12.00
Renishaw, New Mills, Wotton-under-Edge, Gloucestershire, 12.00
Vision, Aviation House, 31, Pink Hill, Edinburgh, 2.30

BOARD MEETINGS:
Interims:
Acatos & Hutcheson
Black Arrow
Fibernet
Osborne & Little
United Utilities
Viridian

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent announcements.

CONFERENCES, VENUES AND COURSES

CONFERENCES

November 19
The National Association of Pensions Funds (NAPF)
whose members represent over £450 billion of pension fund assets, is to hold its Autumn Conference in London on 19 November. The programme will be of interest to pension and investment managers. Speakers include Paul Lynam (KPMG) - *tax self-assessment*, Jennie Kreser (OPRA) - *keep your regulator happy* and David Hager (Bacon & Woodrow) - *the investment challenge*.
For a full programme please call Hannah Barker on 0171 730 0585
National Association of
NAPF
Pension Funds
London

NOVEMBER 25
Using IT for Business Benefit
A breakfast seminar examining the importance of IT to the financial services industry. The seminar will explore new delivery channels now being used by this rapidly diversifying sector, including internet banking, call centres, home banking and digital TV. Distinguished speakers include Pete Marsden, IT Director, Egg and Prudential Banking, Garry Heath, Director General, IFA Association and Sherry Leigh Coutu, Chairman, Interactive Investor.
Tel: 0171 873 3162 Fax: 0171 873 3067
E-mail: catherine.macsweeney@ft.com
LONDON

DECEMBER 1
Benefiting from Ethical Trading
National conference to bring together the corporate and public sectors with trade unions and non-governmental organisations to discuss and learn about a wide range of ethical trading issues. The event will bring together practitioners at the cutting edge of this work to lead practice based workshops.
Contact: Neil Stewart Associates
Tel: 0171 240 9393 Fax: 0171 240 8833
LONDON

DECEMBER 1 & 2
18th FT World Telecommunications
Competition and convergence will be the two main themes of the 1998 FT World Telecoms Conference. Speakers include Sir Iain Vallance, Chairman, BT plc, Mr Bert C Roberts Jnr, Chairman, MCI WorldCom; Mr Gary Forsee, President and CEO, Global One SA; Mr Daniel E Somers, Senior Executive Vice President & Chief Financial Officer, AT&T and Mr Javier Revuelta, Vice-Chairman, Telefonica.
Enquiries: Joanna Edwards
Tel: 0171 873 3374 Fax: 0171 873 3067
E-mail: joanna.edwards@ft.com
www.ftconferences.com
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Conferences, Venues & Courses

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Conferences, Venues & Courses

DECEMBER 2 - 4
Venture Forum Europe '98
Arranged by FT Conferences and Venture Economics, the 9th annual Venture Forum Europe will provide industry leaders with an important opportunity to increase their understanding of the European venture capital marketplace.
Enquiries: Sian Fancourt
Tel: 0171 873 3262
Fax: 0171 873 3067
e-mail: sian.fancourt@ft.com
www.ftconferences.com
LONDON

DECEMBER 7 & 8
The 17th FT World Pulp and Paper Conference
Distinguished speakers include Dr Claes Dahlback, President and CEO, Investor AB and Chairman, STORA AB; Mr Martin Granholm, Executive Vice President, UPM-Kymmene Group and Mr John F McGovern, Executive Vice President and Chief Financial Office, Georgia-Pacific Corporation.
Enquiries: Joanna Edwards, FT Conferences Tel: +44 171 873 3374
Fax: +44 171 873 30676
Email: joanna.edwards@ft.com
Web: www.ftconferences.com
LONDON

DECEMBER 14 1998
Brave New NHS?
The impact of the new genetics on the health service.
This one day conference in central London provides an opportunity for delegates to debate the findings of a major new IPPR report which examines the key issues which the new genetics will raise for the NHS. Speakers include Hugh Bayley MP, Dr John Chisolm, BMA and David Shapiro.
For further information contact:
Neil Stewart Associates
Tel: +44 171 240 9393
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Conferences, Venues & Courses

COURSES

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Email: birchin@birchin.com
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DECEMBER 1 - 3
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DECEMBER 1 - 3
JANUARY 19 - 21
Corporate Finance
Intermediate level aimed at those in corporates and banks who need to understand valuation, capital structure, shareholder value and funding. • Key Concepts in Finance • Cost of Capital • Review of Investment Appraisal • Debt/Equity Management • DCF valuation • Valuation Multiples • Acquisition Funding • Shareholder Value • Practical Case Studies - MBO, M&A
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Tel: 44 (0)1625 530050
Fax: 44 (0)1625 523937
E-Mail: training@fsmd.co.uk
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LONDON

Conferences, Venues & Courses

DECEMBER 2 - 4
Understanding Company Finance
Aimed at those in banks and corporates who need a better understanding of the basic principles and concepts relating to company finance cashflow dynamics and shareholder value • Review of key financial accounting issues • Financial Profiling • Fundamentals of Cash Flow Analysis • Understanding Cash Flows • Market Evaluation • Understanding P/E ratios • Creating shareholder value.
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e-mail: training@lywood-david.co.uk
LONDON

DECEMBER 10 - 11
BPP Financial Education
Asset Securitisation
For sales/trading staff wishing to understand the workings of the securitised bond market. • Players, securitisation, disintermediation • Rating agencies & the process • Structuring securities - types & risks • Securitisation uses - credit enhancement, subordinated debt, insurance based credit • Distribution - market makers, investment strategies, alterative comparisons • Legal & Tax Aspects - securities law, banking & regulation issues, tax relief • Other issues. This course is run by the Treasurer of a major UK plc.
Tel: 0171 786 6853 Fax: 0171 628 7818
Email: hilaryjackson@bpp.co.uk
CITY OF LONDON

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Tel: + 44 171 929 6633
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VENUES

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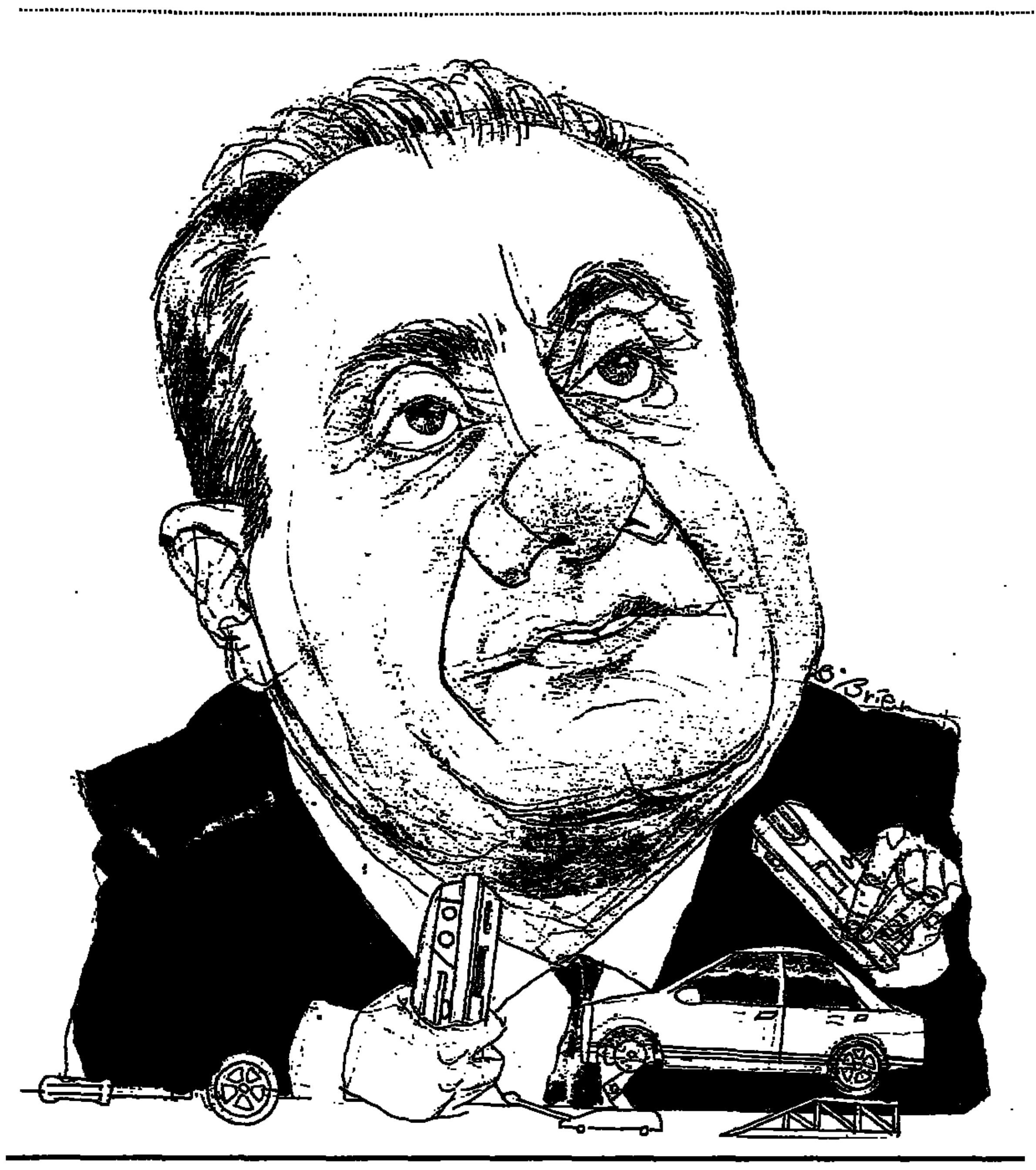
INSIDE TRACK



Essential Guide to Jacques Nasser

Education and experience: born December 12 1947 in Amyun, Lebanon, but moved at the age of four to Australia. Grew up in Melbourne, and gained degree in business studies from Royal Melbourne Institute of Technology.

Career path: joined Ford in Australia as a financial analyst in 1968. First worked in the carmaker's Dearborn headquarters in 1973, before returning to Australia and then holding postings in Asia, Latin America and South America over a 15-year period.

Saw the problems of emerging markets first-hand when armed workers seized a Ford plant in Argentina and took him hostage. Mr Nasser negotiated to resume control of the plant and it was eventually restored to Ford with some military help.

In 1990 he moved from Autolatina, Ford's joint venture with Volkswagen in Brazil and Argentina, to head Ford Australia when the carmaker's operations in Australia were making big losses. Mr Nasser slashed jobs and revamped marketing, and the business moved back into the black in 1993.

Mr Nasser went on to become chairman of Ford Europe in 1993, where a broadly similar strategy was deployed – a combination of job cuts, an efficiency drive, and new model introductions, such as the bubble-shaped Ka economy car.

He became president of Ford's automotive operations in 1996.

Interests: fast cars and top-quality watches, which he collects.

Has always made a point of dispensing with company-provided chauffeurs and drives himself around town.

PROFILE JACQUES NASSER, FORD

Hard driver heading for a 'common' goal

A car enthusiast from the very beginning, the heir apparent who has proved himself to be a tough cost-cutter talks to **Nikki Tait**

Jacques Nasser, chief executive-elect of Ford Motor Company, has been described both as a maverick and a breath of fresh air in the sometimes stuffy world of carmakers in Detroit.

For several years, the hard-driving Mr Nasser – who will take over from Alex Trotman as Ford's chief executive in January – has been a part of the Ford pursuit that has fascinated, yet eluded, the automotive industry: the "common car", a product that could be sold from Stockholm to Sandusky.

In recent years the company has refined that ideal. Mr Nasser argues it is possible to standardise engineering and production while still satisfying the eclectic tastes of car buyers around the world. Instead of the common car, the company has emphasised "common platforms" – or core designs – which it can then enhance with external tailoring to make the product appeal to different markets.

Mr Nasser admits Detroit could not have coped with this approach five years ago. Ford's current philosophy was put in place by Alex Trotman under the "Ford 2000" banner. The plan, launched in 1995, entailed pulling international operations into one integrated company; simplifying core engineering and production to achieve considerable cost savings; and designing around the reduced number of platforms.

Mr Nasser, who became Ford's head of automotive operations in 1996, won his spurs implementing much of the mechanics for this plan. He killed off unprofitable vehicles; shifted production around; spurred a dealership reorganisation; and put pressure on suppliers.

The process has enthused Wall Street, as billions of dollars of cost savings have strengthened the world's second largest carmaker. It has also revitalised Ford's share price, and caught competitors such as General Motors on the hop. Much of Ford's approach has now been copied.

The strategy earned Mr Nasser the nickname of "Jack the Knife", a title he dislikes. But even detractors grudgingly admit he is a "car man" – high praise in Detroit.

He was born in Lebanon, and his family moved to Australia when he was four. Mr Nasser's father worked briefly as a foreman for General Motors in Melbourne, and went on to build up his own property business. Mr Nasser's brother still has property, including nightclub and restaurant interests, in Melbourne.

Mr Nasser was a car enthusiast from an early age. Certainly, he was a Ford man from the start. He joined the company as a financial analyst in 1968, worked stints in Latin America and Europe, and in the mid-1990s headed the carmaker's product development team.

Living up to his maverick reputation, he recently abandoned plans for a formal interview at the last minute, switching the venue to a discreet Italian restaurant on the outskirts of Las Vegas.

Mr Nasser, it transpired, had had his fill of tramping around the annual motor show occupying Las Vegas's cavernous convention centre. So, accompanied by J. Mays, the mastermind behind the design of the new Volkswagen Beetle, who joined Ford last year, he suggested a quiet lunch.

In distinctly un-American fashion, a bottle of Chianti was uncorked and conversation settled on the shape and fate of cars to come.

"In the past," Mr Mays says, "we tended to focus inwardly, looking for functional efficiency. Now the mind-shift is to more outwardly focused, emotional satisfaction for the customer."

He has pursued an ideal that has eluded the car industry – the 'common car'

Mr Nasser takes up the argument, linking trends in car design and production to the 1990s emphasis on lifestyle choices (at least in Europe and North America).

"What you're seeing is niche cultures," he says, using as an example the thousands of magazines that address everything from knitting for the over-60s to Hispanic scuba-diving. Internationally, too, he notes that products such as MTV [the music channel] tailor their approach to suit European, North American or Latino audiences.

Add the aspirational element to car-purchasing, and this combination of production efficiency and superficial differentiation sounds persuasive. "People's homes are what they are," says Mr Mays. "People's cars are what they would like to be."

But why has Detroit suddenly stumbled on the notion that the average car buyer wants more than a metal box that stops and starts to order and looks just like his neighbour's? Mr Nasser does not miss a beat. "Because it's a marvellous business opportunity."

The conversation switches briefly to Australian politics, with Mr Nasser expressing admiration for Paul Keating, the former prime minister. It was Mr Keating who, in an effort to bring big cultural changes, ended by dividing his electorate. Could there be parallels with Mr Nasser's drive to overhaul Ford? In the corporate context, is it possible to move too fast?

Mr Nasser pauses, thoughtfully. "I actually think there are more checks and balances in a company [than in politics]," he says. In a business, he points out, there is instant reaction to any fresh initiative: from trade unions, the media, shareholders or the stockmarket.

If the Las Vegas show had briefly proved to be overwhelming, Mr Nasser's enthusiasm for bustle seems to be returning. "I love big cities," he says. "They're about people, culture, aspirations." So which city is his favourite? He thinks for a moment and picks London – although, with a salesman's tact, quickly adds that if "you pick one, you piss off the others".

It is an unusual choice for someone who has prospered in Australia and America, two societies that are particularly welcoming to newcomers. While Britain may tolerate outsiders, it is less quick to embrace new arrivals or ideas.

Mr Nasser smiles. "Tolerance is the first step to acceptance," he says. "But you may have a point."

LUCY KELLAWAY

Big Shots miss the target

Choose your business hero, get the book, then follow the 10 easy steps to success – there's absolutely nothing to it

Who would you most like to be: Richard Branson, Jack Welch, Rupert Murdoch or *Bill Gates*? *You choose and* I'll tell you how. At my elbow I've got four little books called *Big Shots*, each of which reveals how to become one of these great men in 10 easy steps.

This isn't rocket science, as the publisher, Capstone, points out, but pocket science. For only £8.99 you have in your hands a nifty little volume that will change your life forever.

So, you have chosen Rupert Murdoch, The World's Greatest Dealmaker. Easy. Step 1: Be pragmatic. Step 2: Forget nice. Step 3: Gamble. Step 4: Lead from the front.... You've changed *your mind? You are not a* bastard and you are funny about risk?

OK, let's try Bill Gates, The World's Richest Business Leader instead. The number one secret here is: Be in the right place at the right time. Oh dear, does that rule you out before you even begin? This is the wrong time, and you are in the wrong place?

Don't worry. You can always be Jack Welch, The World's Greatest Turnaround King. Here is *how to become Welch. Step* 1: Invest in people. Step 2: Dominate your market...or get out. Step 3: Never sit still. Step 4: *Think service,* service, service...Step 9: Stick around.

What's that? You think being Jack Welch *sounds too* much of a hard grind?

Well then, there is nothing else for it. You will have to *be Richard Branson, The* World's Greatest Brand Builder.

To be the Virgin King, you *must: a) Keep it casual. b)* Haggle. c) Smile for the cameras. d) Make work fun. e) Never lose the common *touch*.

Sounds pretty easy to me. Why not buy a rail company and try it out?

* * *

In the old days of jobs for life it made sense for an *employer to behave in a* paternalistic way. Then came a brief period in which paternalism fell from favour – there seemed no place for it when everyone "owned" their own careers and job-hopped as if their lives depended on it. Now paternalism is back, but in new clothing. Employers are more desperate than ever to hire and keep good people and are finding that one way of doing it is to offer to take care of their whole lives.

Consider the case of *software company SAS* Institute. According to an article in the FT last week, SAS employees can put their babies through the company crèche, and their children through the company school. They can go to the company's de luxe exercise classes, have their illnesses cured by company doctors, eat SAS food at lunch time and take SAS left-overs home for supper.

No doubt this is all very convenient, but it strikes me as creating the wrong sort of relationship between worker *and employer. For a start, if* your life is that closely bound up with the company, you may be less likely to *jump ship, but your decision* to stay where you are could be for the wrong reasons.

More alarming is what happens should the company decide that it wants to get rid of you. Maybe SAS has no intention of getting rid of anyone, but still, just supposing.

Being made redundant is bad enough, but if you are cast out not only from a job *but* from a way of life for your whole family it would be devastating. A healthier relationship would be to *make the job itself* as good as possible, the pay generous and let the employees get on with the rest of their lives themselves.

* * *

Finally, the penny has dropped. Consultants are coming to realise that the outside world sees them as arrogant, overpaid teenagers who think they knew all the answers. Leafing through the business magazines, I detect a new defensive trend in consultancy advertising *that attempts to* create a more mature, less aggressive image.

The latest ad from KPMG shows *a picture of children* running into school. Above, it says: "They skip into the building each morning, so young, so innocent, so helpless. Are we referring to your children or your consultants?" And underneath: "Our consultants have an average of 13.5 years experience." Likewise an ad from Deloitte consulting says: "We never presume to have all the answers. Because we've learned over the years that certain insights can only come from inside our client's organisation."

This kind of thing is all very well. But if I were about to spend several million dollars getting the consultants in, I might need something a little more positive.

The news that a firm's consultants each have 13-odd year's experience (of what?) might not be enough to swing it.

* * *

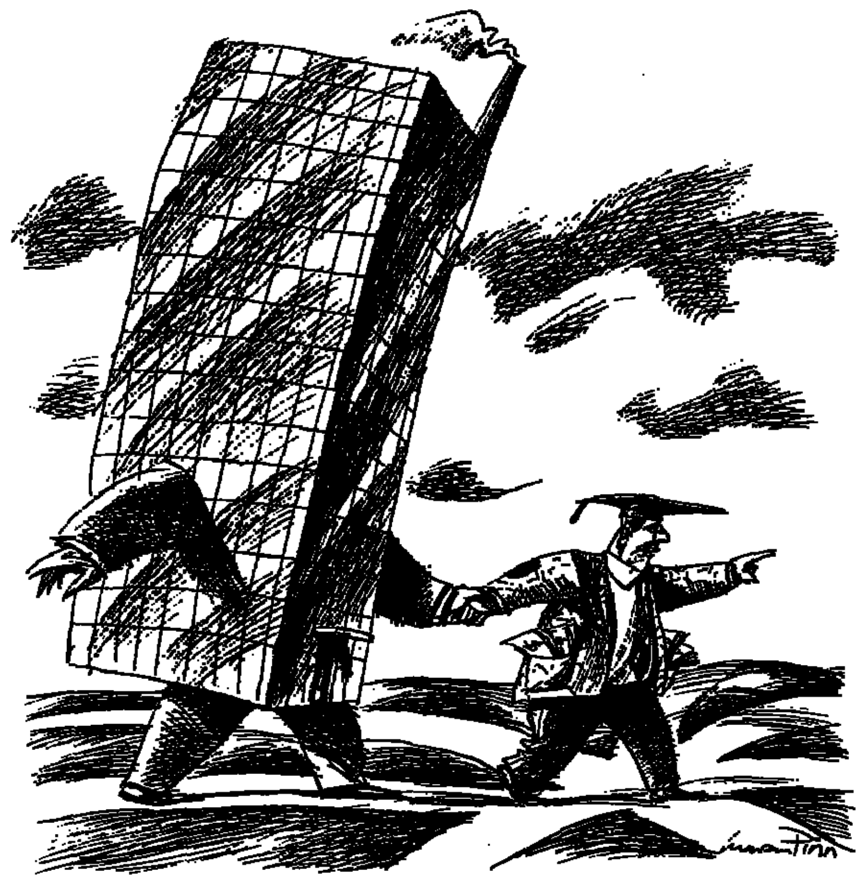
Further to my column last week on e-mail acronyms, a reader alerts me to another one, TNSTAAFL. This stands for that highly debatable saying: There's no such thing as a free lunch. *On reading that I daresay* you are ROTFL or – as we long-winded pedants prefer to say – rolling on the floor laughing.

lucy.kellaway@FT.com

BUSINESS EDUCATION CONSULTANCY

Putting theory into practice

Victoria Griffith on the pressures drawing business schools into consultancy work



Move over Bain & Co! Eat your heart out Boston Consulting! There is new competition on the street, and it is coming from an unexpected source: academics. Business schools are reinventing themselves as consultancies, and are winning the admiration of corporate clients.

MBA programmes have long encouraged professors to carry out consultancy work on the side as a way to keep them in touch with the real world (although schools often monitor the amount of time spent on such work).

Yet traditionally, such consulting was on an ad hoc basis. Corporations might ask the advice of management gurus Michael Porter or Rosabeth Moss Kantor, both of Harvard, for instance, but Harvard Business School itself remained aloof from such dealings.

Under a new consulting model, business schools are placing themselves in the driver's seat. They manage the relationship – even assigning professors, or groups of professors to certain corporations.

UK business school Ashridge, which probably saw the trend first, has been operating a separate consultancy practice since 1987.

In the US, business schools such as Babson, the University of North Carolina (UNC) at Chapel Hill's business school, and the Fuqua School of Business at Duke are re-fashioning themselves as miniature consultancies.

US business schools began to develop contacts with corporations earlier this decade, when "tailored courses" for individual companies came into vogue. Companies love the individual attention, and the "executive education" arms of many MBA programmes have become extremely profitable.

Yet corporations say they need more than just classroom instruction. Executives are increasingly demanding follow-up sessions, coaching and mentoring, even direct involvement in strategic planning.

"Typically, business schools offered off-the-shelf education products to corporations," says Steven Hicks, head of custom programmes at UNC Chapel Hill's business school.

"But consumers of business education got more demanding, so schools started offering custom courses. Consulting work is an obvious outgrowth of executive education."

When Hans-Peter Eitel, head of a computer products division of Siemens-Nixdorf, needed outside advice two years ago on how to change his group's corporate culture and roll out strategic planning, he turned to Babson College, a business school just outside Boston.

The company had been sending managers to courses at the school, but Mr Eitel wanted a greater commitment. He got it. Soon, Babson professors were advising the company on everything from product launches to financial models.

"We wanted help and advice on demand," says Mr Eitel. "We didn't want to be restricted to the times the courses were meeting."

As the relationship deepened, Siemens has sought advice from Babson professors on a myriad of topics. When managers were reluctant to launch a new product, citing excessive financial risk, Babson consultants persuaded them to go ahead. "They explained that if you look at new products from a traditional accounting point of view, almost all launches seem a bad idea," says Mr Eitel. "They encouraged us to go ahead."

'Consulting work is an obvious outgrowth of executive education'

Consulting can be extremely profitable. Ashridge says it makes £2.5m a year on its small practice. Yet business schools say they face several challenges in trying to refashion themselves as consultancies.

Some schools are still reluctant to stray too far from classroom instruction. Many say they differ from consultancies because they do not offer advice; rather, they try to lead executives to the correct decision. "We don't catch fish for companies; we teach them how to fish themselves," says Prof Hicks of UNC Chapel Hill. Yet the line between advising and teaching can be very thin, as is obvious to anyone who has ever had a professor say something like: "Did you ever think about changing your focus a little?"

Faculty, moreover, can be resistant to the idea of consulting under the auspices of a business school. For many professors, independent consulting is an extremely profitable sideline. Sharing the business with the school can be difficult.

"When the professor consults on his own, he's the only one who makes money," says Rich Bettis, a business school professor at UNC Chapel Hill. "The professor may not be crazy about sharing those profits."

Prof Hicks says some professors are reluctant to introduce corporate contacts to administrative personnel at the school, for fear the school will steal their clients. MBA programmes themselves may also be loath to move too quickly into consulting for fear of raising the ire of some of their most treasured recruiters – the big consultancies.

Yet since many corporations and business schools covet a deeper relationship, the growth of the business school as a consultancy model seems bound to grow.

"This is all in its infancy," says Prof Bettis. "But it's the direction everyone is moving in."

JUDY DEMPSEY
FILE FROM JERUSALEM

An unhappy blend of ingredients

The growing power of the religious parties, a trend ignored by secular Jews, spells the end of Israel as a melting pot

As chef of Fresco, a smart restaurant just behind Jerusalem's Jaffa Street, Udi Meri prepares meals which go some way towards filling the culinary vacuum of the city.

The menu was expanded four months ago, when Fresco decided to become non-Kosher.

That was when the trouble started.

The Haredim, ultra-Orthodox Jews who adhere to strict religious codes of behaviour, started gathering outside the restaurant during the Sabbath hours of Friday night and Saturday. Sometimes they threw stones, on other occasions they cursed Mr Meri and the staff, telling them they would be sent to their death if they broke God's laws on the Sabbath.

During weekdays, Mr Meri still receives telephone calls from the Haredim, some trying to persuade him to return to the ways of the Torah, or Bible, others swearing at him.

Mr Meri and Fresco's Jewish and Arab staff have, so far, shrugged off the threats, relying on the popularity of the restaurant to keep morale high.

But for how long they can continue to do so is another matter, if the results of last week's local government elections are anything to go by. In Jerusalem, Ehud Olmert, member of the right-wing Likud party, was swept back to power as mayor. But this time, half of the 31 city council seats were won by the religious parties.

In 1993, after a last-minute pact with the Haredim, Mr Olmert unseated Labour's Teddy Kollek.

He rewarded the religious parties by giving them some of the most important ministries, such as housing, transportation and finance. They will expect much more following last Tuesday's election.

Elsewhere in the country, the religious parties, especially Shas, the ultra-Orthodox party representing the Sephardim, Jews from North Africa, Iran and Iraq, made big inroads. Shas clinched three seats in trendy, liberal Tel Aviv, where they are expected to put pressure on the new Labour mayor to impose a ban on all trading during the Sabbath.

The results have horrified Mr Meri and his friends. He fears the Haredim will impose more restrictions, for instance trying to close non-Kosher restaurants during the Sabbath, or even more roads, now they have greater power on the council.

As a result, he believes young secular Jews will leave Jerusalem and go down the hill to Tel Aviv or retreat to the new suburban towns, leaving the city more vulnerable to religious influence.

It also showed how Israel's once extraordinary melting pot was coming to an end

Yet it is precisely the seculars who are largely to blame for the growing power of the religious parties. For all their complaints about how the Haredim receive generous subsidies for housing and education, how they receive exemptions from paying the *arnona*, the exorbitantly high city taxes, and from serving in the army, the seculars – non-observant Jews – did not turn out to vote.

In Jerusalem's 600,000-strong population, 50 per cent of those eligible to vote did so. However, only 30 per cent of seculars cast their ballot while 85 per cent of the Haredim turned out at the polls, with free transportation provided and strict instructions not to waste their vote.

Elsewhere in the country, the average turnout was 50 per cent, high by European standards but low by Israel's where the young democracy requires a high participation level.

Highest turnout was among the most motivated of the parties: the religious, and Yisrael Ba'Aliya, the Russian immigrant party. Both groups had points to prove.

The religious wanted greater access to political influence – and further financial benefits from the larger political parties, in return for support, especially in parliamentary coalitions. The Russians wanted to consolidate their power base in Israel in order to establish themselves as a powerful political party set to defend the interests of the new immigrants.

But the success of both movements showed more than just the demise of the traditional Labour-Likud ideological divisions of Israeli society – probably not a bad thing in itself since both have evolved into parties of patronage.

It also showed how Israel's once extraordinary melting pot, encompassing so many different languages, cultures and backgrounds, was coming to an end.

In its place is something more uncertain, if not worrying: a society undergoing rapid fragmentation in which the main political parties are encouraging sectoral interests rather than nurturing some consensus. It is a trend secular Israeli Jews want to ignore.

People like Mr Meri, or Yossi, a truck driver born into a Likud family, are furious with the seculars' double standards.

"They moan and criticise about the growing power of the religious parties, but what do they do about it? Nothing," said Yossi.

He voted but not for Likud because he believes Benjamin Netanyahu, the prime minister, as much as Mr Olmert, has become increasingly beholden to the Haredim in order to remain in power.

Yossi voted for Meretz, the small left-wing party, one of the very few that speaks out against the growing power of the rabbis as much as the apathy of the seculars.

Meretz won three seats in Jerusalem, perhaps enough for the chef at Fresco to believe it is still worth staying in the city and continuing to cook.

NEWS FROM CAMPUS

Managing the global business

How do you manage a team of people when some are in New York, others in New Delhi and still more in London or Paris? This dilemma will be tackled in an executive programme beginning next March.

The one-week course, run jointly by Harvard Business School and the Spanish school Iese, will use videoconferencing links between Boston and Barcelona. It is entitled *Learning to Lead through Global Teamwork*.

Some 20 executives in each of the two cities will assume roles in the company Bulgari Parfums, an organisation grappling with the problem of global transformation.

Harvard www.hbs.edu
Iese: www.iese.es

Assessment teamwork

The American accreditation body, the AACSB, has agreed with its UK equivalent, the Association of MBAs, on a procedure for their first joint accreditation of a UK business school. They plan to assess Warwick Business School early next year.

The AACSB will assess the whole school while the Association of MBAs will lead the assessment of the MBA programmes.

The AACSB will add both an academic reviewer and an industry reviewer to the Association's review panel for the MBA part of the review.

AACSB: www.aacsb.edu
Association of MBAs: www.mba.org.uk

Women gain ground at Stern

The Stern school at New York University has announced a dramatic increase in the number of women on its MBA. This year 43 per cent of the students are women.

Stern: www.stern.nyu.edu

Chinese get on the case

Faculty members from two universities in China are learning how to teach, the Washington way.

The Olin School of Business at Washington University in St Louis is hosting faculty from Fudan University in Shanghai and Tsinghua University in Beijing. The semester-long visits are intended to help Chinese faculty move from the chalk-and-talk method of teaching to a case-method approach.

Washington University: www.wustl.edu

Learning from the dark ages

Can a discussion of the *Christian monastic orders in* the 10th century hold lessons for managers today?

Editors of the *Financial Times Mastering Management Review* obviously believe it can, and have published just such a debate in this month's issue.

On a more conventional note, the issue also sees the start of a four-part series on shareholder value by David Young, professor of accounting at Insead, in Fontainebleau.

Mastering Management: UK, 181 597 0181

Tax break for course fees

British full-time MBA students are now able to claim tax breaks on their course fees following a ruling by the Inland Revenue which extends existing tax relief on vocational qualifications.

To qualify, participants must be more than 30 years old when they start their programme and the course must be only a year long.

The tax relief will reduce fees by 23 per cent.

Information for News from Campus should be sent to Della Bradshaw,
The Financial Times, One Southwark Bridge, London SE1 9HL
Tel. 44 171 873 4673 Fax 44 171 873 3950

CULTURE POTTED THEORIES

Difficulties in a marriage

Cultural differences have created some of the biggest obstacles for companies involved in mergers.

The problem is that much greater for multinationals such as Chrysler and Daimler-Benz where the merging businesses must fuse the characteristics of their countries of origin.

The difficulty of marrying cultures has highlighted the work of two Dutch academics, Geert Hofstede and Fons Trompenaars, who have carried out related, but independent research, into cultural differences in societies and business.

Mr Hofstede, whose research developed studies by Mauk Mudler, a Dutch social psychologist, identified five measurable characteristics of national cultures. First is what Mudler called power distance – the emotional distance that separates subordinates from their bosses. In France, for example, where status is valued, the power distance is much greater than in Sweden, a less hierarchical society.

Mr Hofstede created a power distance table, drawn from a survey of IBM employees in different countries. The high scorers were those societies in which managers exercised high levels of control. Those with the lowest scores had more consultative and interdependent relationships between managers and subordinates.

The other four dimensions are: individualism against *collectivism; gender differences*, masculinity verses femininity; uncertainty avoidance, related to whether people are risk takers or *risk averse*; and time orientation - a recognition that some cultures prefer negotiations and relationships to "bed in" over a period of time.

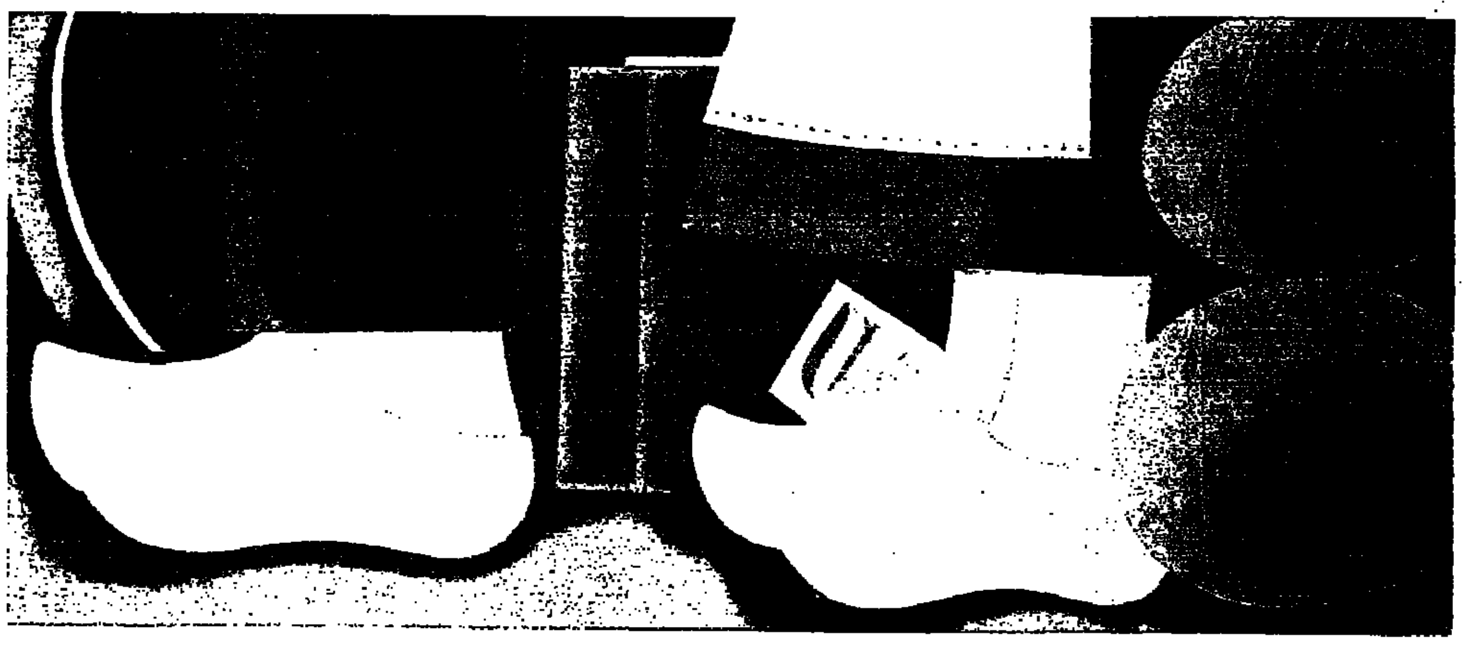
Mr Trompenaars, a Netherlands-based consultant, progressed this work in his 1993 book *Riding The Waves of Culture*.

One of his key findings was the fundamental difference between two cultural types - "particularists" (those who have a sense of obligation to a colleague or friend, mostly found in south east Asian societies) and "universalists" (those who feel constrained to abide by rules, characteristic of North American societies).

Quote: "Culture is reflected in the meanings people attach to various aspects of life." Geert Hofstede: born 1928

Worth Reading: Culture's Consequences: International differences in work-related values, Sage Publications, 1984.

Richard Donkin



BUSINESS TRAVEL NETHERLANDS

Airport decision set to land

A final verdict on where to build an international airport to relieve congestion at Amsterdam is edging closer, says **Roger Bray**

The Dutch government is close to deciding whether a new international airport should be built on land reclaimed from the North Sea.

The ambitious project aims to counter inevitable congestion at Schiphol. The cost of building a new airport has been put at about Fl 30bn (£9.5bn), but its exact location is far from clear.

"At first the proposal was to put it 10km offshore. Then it was 20km. Now the planners are talking about building it 30km from the coast. If it gets any further away, we'll be able to call it a UK airport," says Léon Verhallen, passenger marketing director at Amsterdam's Schiphol.

The irony is that Schiphol has long been marketed as just such an airport: an alternative jumping-off point for passengers from the UK regions who would otherwise need to change flights in London.

Nearly half its annual total of 27.4m scheduled travellers are transfer passengers, up from 35 per cent at the start of the decade, and a vast number of them are flying to or from Britain.

But Schiphol faces a tough task to persuade them to keep coming. As business expands, it will become increasingly difficult to fulfil the current promise that short-haul travellers need only 40 minutes between flights and that long-haul passengers can switch in 50 minutes.

The airport suffered embarrassing delays this summer, caused by a new air traffic control system, bad weather and building work which forced more aircraft to park at remote stands.

But in the longer term it faces a dilemma common to many others in Europe: how to balance inexorably rising demand for air travel against the objections of environmentalists and anti-noise protesters.

The airport is now allowed to handle 20,000 extra flights each year until 2003, when a fifth runway will be fully operational. That should allow the airport to keep pace with average European growth of about 5-6 per cent. But with airlines acquiring larger aircraft, passenger numbers may increase more rapidly than take-offs and landings. Until the government decides what to do about building a new airport, it is far from clear how many travellers Schiphol will have to cope with.

Nevertheless it has launched the first phase of a programme to expand its terminal. The central lounge

Schiphol faces a tough task to persuade travellers to keep coming

area close to D pier, used by most European travellers, is having a facelift and will double in size. It had been split down the middle because of the need to segregate passengers flying within the Schengen area, who do not need to pass through immigration. Soon they will use a separate floor and, by April 2000, they should be using a new pier. The number of air bridges from piers to parked aircraft will be increased from 80 to 100, the largest number in Europe after Heathrow, it is claimed.

Moving walkways are being widened to speed up transfers between gates. And after an increase in late luggage, a new baggage system is to be installed. This will enable luggage for delayed flights to be held separately.

The expected demise of duty and tax-free sales to passengers flying within the EU, which is likely to deprive the airport of some Fl 100m a year, has prompted a retailing rethink. The airport has decided to shun individual shops dedicated to a brand. Existing outlets, many of which are old-style counters, will be replaced by islands dedicated to one product, from books and newspapers to CDs and computers.

An internet cafe will be installed for passengers. If they have enough time between flights, travellers will be able to play golf at a new course close to the airport. The builders are in and will be working through the winter. It is hoped the job will be completed when the duty-free axe falls next summer.

By then, it is hoped, the issue of where to build runways will be resolved. Three potential solutions are being studied: an "overflow" airport for cargo, charter and low-cost airlines on reclaimed land in the Maas delta near Rotterdam, which would still leave Schiphol needing to handle an eventual 60m passengers a year, against its current 35.5m. Then there are two sites which would siphon off all transfer traffic – one in the Ijsselmeer (formerly called the Zuyder Zee) – and the North Sea option. Either of these would leave Schiphol with only 20m passengers to worry about.

Mr Verhallen says Rotterdam is far from ideal, partly because of a lack of infrastructure. Birds will be a problem in Ijsselmeer. Their habitats should not be disturbed and they may pose a hazard to aircraft.

Schiphol favours the North Sea solution, but that is also the most costly.

● Euroscot Express, the UK airline, has launched a link between the south coast town of Bournemouth and Schiphol airport with return fares starting at £117.50. Weekday flights depart at 11.50am. On Saturdays and Sundays they leave at 5.40pm and 9.30am respectively.

TRAVEL UPDATE

Expensive times for tourists

Hire a car in Amsterdam and you pay a bigger proportion of the rates in tax than in any other leading city, a report shows. Copenhagen is top of the hotel and restaurant tax league – and Chicago is the most expensive for air travel.

The figures come from the World Travel and Tourism Council, a forum for travel industry leaders, which regularly monitors such charges. It says seven destinations charge more than 30 per cent of the car rental price in tax. After Amsterdam (50.1 per cent), the most demanding are London (37.9 per cent), Vienna (34.7 per cent), Copenhagen (33.1 per cent) and Frankfurt (32 per cent). Hotel tax represents a quarter of the hotel bill in the Danish capital. Next in the hotel table come Prague (22.31 per cent), Buenos Aires (21 per cent) and Bombay and Delhi (both 20 per cent).

The WTTC says that, in the past four years, air passenger charges have increased in 46 of the 52 destinations it watches – and have doubled in 10 of them. Top of the list in absolute dollars is Chicago, which charges $65.75 per international arrival and departure.

Air travel discounts

Airlines have started to offer discount deals on corporate contracts as companies cut back on business travel. As a result, says travel agent Carlson Wagonlit, average fare increases across all three classes have dropped to only 1.5 per cent on a rolling annual basis. Last year they were running at around 13 per cent.

More seats on Air Canada

Air Canada has increased the number of seats this winter in premium fare cabins – a cross between first and business class – on some of its long-haul, transatlantic aircraft. On Boeing 747-400s the number of business-first seats is now 63 against the previous 43 and on Airbus A340s 44 against 32.

New Hiltons

New Hiltons are planned in Vancouver and Venezuela. The former will open in 2000, 15 minutes from the city's international airport in the suburb of Burnaby. It will have 283 rooms and will be part of a C$200m development including offices, shops and a conference centre.

The latter is scheduled to open later the same year in the industrial city of Maturin, in eastern Venezuela. It will have 229 rooms and suites, and conference space will include a ballroom, accommodating up to 400 people, which will divide into smaller meeting rooms.

Luxembourg/ London trip

VLM, the Belgian regional carrier, launches a new service between London City Airport and Luxembourg today. The Antwerp-based airline is flying the route in partnership with Luxembourg's Luxair. It will operate three round trips a day from Monday to Friday and one at weekends, using a Fokker 50 turboprop. Departure times will allow a London-based executive to catch the 8am flight, arrive at 10.25am and return on the 5.35pm service.

Luxury hotel's historical link

An 18th century house where Lord Byron married Anne Isabella Milbanke, is being converted into a 40-bedroom luxury hotel and conference centre. Seaham Hall is off the A19 on Britain's Durham coast. The hotel, which opens next year, will have a health club and will offer internet access from all its rooms.

The world from your hotel room

Guests at the Ritz-Carlton in Hong Kong are now being offered unlimited free e-mail and internet access from the 20 new "WorldRooms" installed in the hotel, *writes Nigel Page*. WorldRooms also provide online news and business databases. The technology was developed to deploy a virtual local area network without cabling. Guests can send or receive a fax, place a telephone call and access the internet via a laptop or workstation simultaneously, using a single phone line in their rooms.

Roger Bray

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	18	18	15	13	19
Hong Kong	28	27	26	26	28
London	8	8	8	9	8
Frankfurt	6	5	4	4	3
New York	13	11	1	12	15
Los Angeles	20	20	20	20	21
Milan	15	14	12	10	10
Paris	7	7	6	7	8
Zurich	6	4	2	3	1

Information supplied by PA WeatherCentre — Maximum temperatures in Celsius

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TECHNOLOGY VACUUM TURBO-PUMPS

Responding powerfully to pressure

Pfeiffer is renowned not only for financial innovation but also its sophisticated products, writes **Peter Marsh**

Wolfgang Dondorf: 'We also liked the US's clearer accounting rules'

Plastic fuel tanks in cars were once considered a potential safety risk because of problems associated with petrol vapour leaking from the joints connecting the tank to the rest of the fuel system.

The fact that nowadays few car companies – or their customers – worry about this can be ascribed partly to a German company which is a world leader in vacuum technology, and has an impressive record in applying its expertise in a variety of industries.

Pfeiffer Vacuum is the biggest maker worldwide of vacuum turbo-pumps, claiming 30 per cent of the DM300m (£111m) -a-year global market. Yet even though its vacuum turbo-pumps are among the most technically sophisticated products found anywhere, the company has hit the headlines largely for financial innovation.

In 1996 it became only the third German company – after Daimler-Benz and SGL Carbon, both of them much bigger corporations – to list its shares on the main New York Stock Exchange. It was also the first German company to list in New York without having first done so in Germany.

The company, based in Asslar, near Frankfurt, and which dates from 1890, decided on this course after being spun out of Oerlikon-Bührle, a big Swiss engineering company which had owned it since the 1970s. Oerlikon was forced by antitrust agencies to divest Pfeiffer after acquiring Leybold, another big maker of vacuum pumps which is also based in Germany.

Rather than float initially in Germany (where, since April, the company has had a separate listing on the country's Neuer Markt for fast-growing businesses), Pfeiffer opted for New York, partly because it has 30 per cent of its sales in the US.

"We also liked the US's clearer accounting rules [compared with Germany]," says Wolfgang Dondorf, Pfeiffer's 54-year-old chief executive. Mr Dondorf, an engineer who had worked for a number of US and German equipment companies, took over his job four years ago with the mandate of giving Pfeiffer a separate identity. He has accepted the challenge. "What's the difference between selling shares and selling vacuum pumps?" he asks. "Basically nothing. Now we are a public company in our own right, we have to explain ourselves to the financial community, which helps us to create a clear-cut business strategy."

With sales last year of DM270m, only a quarter of which was in Germany, Pfeiffer expects revenues of DM300m this year and is keen to double the figure by 2003, partly through acquisitions.

Its vacuum turbo-pumps are used to create pressures of as little as one million-billionth of an atmosphere. The pumps contain up to 200 small blades fitted laterally on a shaft. This turns at 90,000 revs/minute, twice as fast as a jet engine. Air is removed by forcing it through a channel at 1km/second, or three times the speed of sound.

Devices of this sort – in which Pfeiffer's competitors include Alcatel of France and the UK's Edwards High Vacuum – can cost up to DM50,000. They are sold in a range of industries requiring extremely low pressures, from semiconductor manufacturing to specialist coating processes for spectacle lenses, compact discs and TV tubes. The pumps also end up inside analytical instruments.

'We have to explain ourselves to the financial community, which helps us to create a clear-cut business strategy'

While sales of stand-alone pumps account for slightly less than half Pfeiffer's revenues, it has used its engineering expertise to branch out into providing large pieces of specialised equipment for important customers.

An example is Kautex, the world's biggest maker of plastic fuel tanks for cars. Production of these tanks is growing swiftly as automotive suppliers seek lighter and easier-to-manufacture substitutes for conventional metal tanks. Kautex, which is based in Germany but owned by Textron, the US industrial conglomerate, asked Pfeiffer to devise a fool-proof system to test its tanks (and the assemblies that feed petrol from them to the engine) for leaks. It came up with a large vacuum chamber into which the tank assembly is passed from the production line. Helium is passed into each tank and any small traces of the gas passing through the plastic into the chamber are detected, signifying a defect.

Pfeiffer has sold three of these systems at DM1m each to Kautex for use in Europe, and is hoping for more contracts.

Another big job for the company has been to work on an automated production line for solar cells, being made for Balcke-Duerr, an equipment company which is part of Deutsche Babcock, the German engineering group. The DM15m system, which should see service next year in one of the world's most advanced solar-cell factories near Erfurt, comprises a vacuum chamber some 50m long which will coat glass with the required materials to make solar cells much more efficiently than in conventional processes.

About a quarter of Pfeiffer's revenues come from vacuum-related projects paid for by research laboratories around the world such as the Jet nuclear fusion research team in the UK and Bell Laboratories in the US.

Pfeiffer's technical expertise extends to the manufacturing methods for its turbo-pumps. It makes its own equipment for cutting to tolerances of 10 micrometres (one-millionth of a metre) the aluminium blades used in its pumps. "We have 12 of these machines – and they do the job better than anything we could purchase from an outsider," says Mr Dondorf.

The company has also come up with a technique based around the so-called "shrink-fit" methods to fit the blades into specially shaped grooves in the pump shaft. Taking advantage of the differences in the coefficient of expansion between the metal in the blades and shaft, Pfeiffer's engineers heat the blades to about 150°C, cooling the shaft with liquid nitrogen to -180°C to ensure that when the two parts of the assembly are fitted together they join snugly without the need for any external material (such as adhesive or welding metal) that would upset the delicate balance of the pump once it is in operation.

TIM JACKSON
ON THE WEB

DigiCash is dead. Long live DigiCash!

Ill-founded fears about the security of payments across the internet have receded, leaving a window of opportunity wide open

Does the world need a new way of settling personal payments? That is the question raised by the announcement on November 4 that DigiCash, a pioneer of anonymous, secure, low-cost internet payment mechanisms, is seeking Chapter 11 bankruptcy protection.

The decline of DigiCash comes on top of the closure of most of the market trials for stored-value electronic cards like Mondex. Both developments seem to suggest that consumers do not actually need new ways of paying for things in addition to today's coins, banknotes, credit and debit cards.

The problem with stored-value cards is simpler to diagnose. Although in theory it would be convenient not to have to carry any cash, Mondex-type cards do not become truly useful until you can use them everywhere.

If you still have to carry a pocketful of change to buy a newspaper or a bar of chocolate, or to travel by public transport or taxi, then there is nothing to counterbalance the inconvenience of carrying another card – which, incidentally, is more troublesome than a credit card because careless customers who lose it are more likely to lose money.

DigiCash's problem is more subtle. The company's technology offers two important attractions: anonymity and security. Two years ago, the slow acceptance of electronic commerce led many pundits to believe that systems like DigiCash, in which both customer and merchant have to set up special bank accounts, were needed to persuade consumers to start buying online.

Today that fear has receded: even though DigiCash and similar systems have failed to take off, consumers in the US are now happily doing business online anyway. In addition to traditional suppliers offering a web-ordering option, like Dell, at least six internet start-ups will achieve more than $100m in 1998 consumer sales.

DigiCash's backers were right in believing that consumers would grow increasingly fearful of the use of their personal data. But this has not created market demand for anonymity in transactions – partly because most spending is on mail-order purchases of goods, where you have to give your name and address to receive your box.

Instead, it has prompted a flight to quality: customers are willing to entrust their personal data to strongly branded companies like Amazon, but not to just any merchant they find on the web.

As for security, the fears have so far proven largely misplaced. Two years ago, newspapers and magazines were full of scare stories about the stealing of credit-card numbers over the internet.

Today, a growing number of inexpert web users are getting the message that sending data over a secure connection to an online merchant is more reliable than handing a card to a waiter in a restaurant.

The growing number of online merchants guaranteeing to cover any uninsured losses resulting from compromise of credit-card data makes the point more clearly still.

So is DigiCash doomed to be sold to a company that wants to recycle its intellectual property as a secure voting system? Not necessarily. For there is another advantage to its system that has not yet been exercised: its ability to handle very small payments cost-effectively.

Until recently, I used to think that micropayments, as they are called, were an answer to a non-question. Micropayments are not relevant to the selling of goods because the cost of shipping already places a floor on the lowest value of order that a mail-order company can take from a customer. Their target market was the sale of services – particularly information in digital form, downloaded from the internet.

Yet dozens of companies have failed to make money by selling information in small pieces. A prominent case in point is IdeaMarket, which hoped to sell newspaper articles for prices as low as a couple of dollars. The venture didn't succeed – partly because consumers dislike paying such a high price for something they know has a very low marginal cost.

Although the jury is still out, because even the strongest brand owners are finding it hard to sell consumers longer-term subscriptions to information services, it seems more likely that pay-per-year is a better model than pay-per-story for reasons entirely unconnected with the transaction cost issue.

Yet there is a role in the world for a son-of-DigiCash. To see where, you need look no further than eBay, the person-to-person auction service that went public a couple of months ago and is now valued by the markets at more than $3bn.

The average price of products sold in eBay's auctions is about $40, which participants settle by sending each other cheques in the mail.

With about 900,000 simultaneous auctions taking place on the company's web site, it is clear that eBay alone creates demand for a low-cost and reliable payments mechanism.

This is particularly true for transactions across borders. Although cheques are convenient for consumers in one country, the fee charged by most banks for paying in a cheque in a foreign currency is usually at least $20 and often considerably more.

The businesses best-positioned to serve this market need are of course the credit card companies. A simple way to solve the problem would be to allow people to use their credit cards not only to make payments but also to receive them.

At present, the rules of credit card settlement systems forbid this. But if a new DigiCash manages to build a business in person-to-person settlement of small sums, it will be more because the credit card companies fail to take advantage of an opportunity than because of the intrinsic merits of a new and separate system.

TECHNOLOGY SHIPBUILDING

From crude to state of the art

David Tinsley looks at how an innovative shuttle tanker has stabilised the collection of oil and made the process more environment-friendly

How do you keep a tanker steady while it is being loaded with crude oil in seas where the waves can reach 6m high, winds are heavy and currents strong? With minimum damage to the environment, for good measure, and during a life-span of 40 years.

In the harsh climate to the west of Shetland, you need a ship like the Korean-built Loch Rannoch, a 130,000 dwt shuttle tanker which recently arrived in Scottish waters. Shipbuilding experts say it provides a new benchmark in specialised tanker design and construction.

Believed to have cost about $85m (£51m), the vessel, purpose-built by Daewoo Heavy Industries, combines robustness, state-of-the-art control and positioning technology, and the principle of full engineering and propulsion system redundancy. This means that everything important to its smooth running is duplicated – there are two main engines, twin propellers, twin rudders, and a failsafe dynamic positioning system to keep the vessel on the right spot.

The principle is being embraced increasingly in the off-shore tanker sector, where it has been taken a stage further by Loch Rannoch. But it has been largely ignored by the general tanker shipping sector – with some notable exceptions in Scandinavia and the US – because it adds to the cost.

The Loch Rannoch has been brought into service under long-term charter, or hire, to BP from A. P. Moller, the Danish group which owns it and financed the shipbuilding project. Its role is to transport crude from the Schiehallion field to the Shetland terminal at Sullom Voe, working continuously whatever the weather and sea conditions. On each voyage it will collect up to 850,000 barrels of oil processed by a vast floating production, storage and offloading (FPSO) unit which is stationed permanently on the field.

The latest analytical techniques and risk assessment methods have been used to create a design that meets its tough operating criteria. Nothing has been left to chance – unusually, the machinery area has been subdivided by watertight bulkheads into three spaces, one for each main engine and one for all fuel processing equipment. This improves the ship's ability to keep going in the event of any one compartment flooding or catching fire.

The latest analytical techniques have been used to create a design that meets tough operating criteria. Nothing is left to chance

It is critical for shuttle tankers to have a high degree of manoeuvrability, slow-speed control, and the ability to hold precise position and attitude while transferring crude oil from the production platform or vessel.

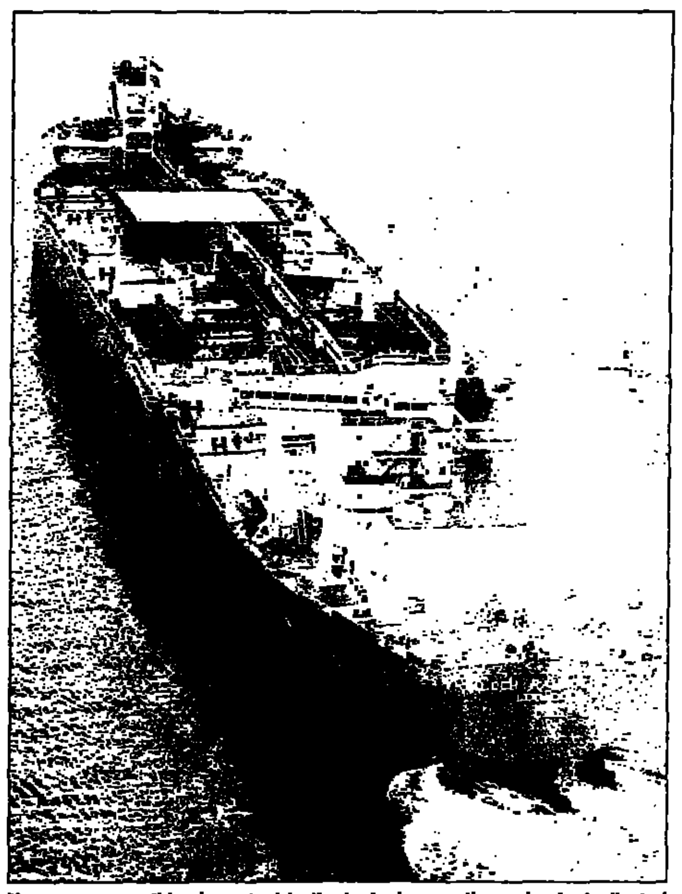
Loch Rannoch's dynamic positioning system (DPS) controls the main propellers, enormously powerful bow and stern thrusters and twin rudders, and interfaces with the propulsion engines, electric power plant and mooring hawser tension as well as the various position reference systems and environmental sensors. The system has been configured in such a way that a fault in any active component should not result in a loss of position, which could otherwise have serious consequences, from a break in offloading to collision with the production vessel.

The duplication of equipment and the separation of key plant helps to reduce the environmental risk in operating the vessel. The Schiehallion and the adjacent Loyal field lie about 100 miles west of Shetland, a region of particular ecological sensitivity because of features such as the local mackerel industry, the presence of whales and dolphins and the large number of seabirds from May to July.

In addition, strong winds and currents could bring spilled oil ashore on Shetland within 48 hours.

The operation of shuttle tankers is a sensitive environmental issue because of the formation and release of atmospheric pollutants known as volatile organic compounds (VOCs) during cargo loading, when crude oil surges into the tank. Emissions over a shuttle tanker's working life can be relatively large, compared with those from long-haul, conventional tankers, due to the frequency of loading.

On the Loch Rannoch, the tanks have been designed to minimise the formation and release of VOCs, and an innovative recovery system has been adopted so that vapour is blown back through a hose to the production vessel.



New wave: everything important to the tanker's smooth running is duplicated and watertight bulkheads subdivide the machinery area

هكذا عن الاصل

OPENINGS

HUDDERSFIELD

PHILADELPHIA

INTERNATIONAL Arts Guide

AMSTERDAM

OPERA

BERLIN

DANCE

CHICAGO

CONCERTS

OPENINGS

HUDDERSFIELD
Simon Holt's first opera, *The Nightingale's to Blame*, is the centrepiece of the Huddersfield Contemporary Music Festival. Based on Lorca's *The Love of Don Perlimplin for Belisa in the Garden*, the opera receives its first performance on Thursday in an Opera North production at the Lawrence Batley Theatre.

PHILADELPHIA
Anthony Payne's elaboration of Elgar's Sketches for a Third Symphony receives its US premiere at the Academy of Music on Friday, with repeat performances on Saturday and next Tuesday. The Philadelphia Orchestra is conducted by Andrew Davis, who also directed the world premiere in London in February.

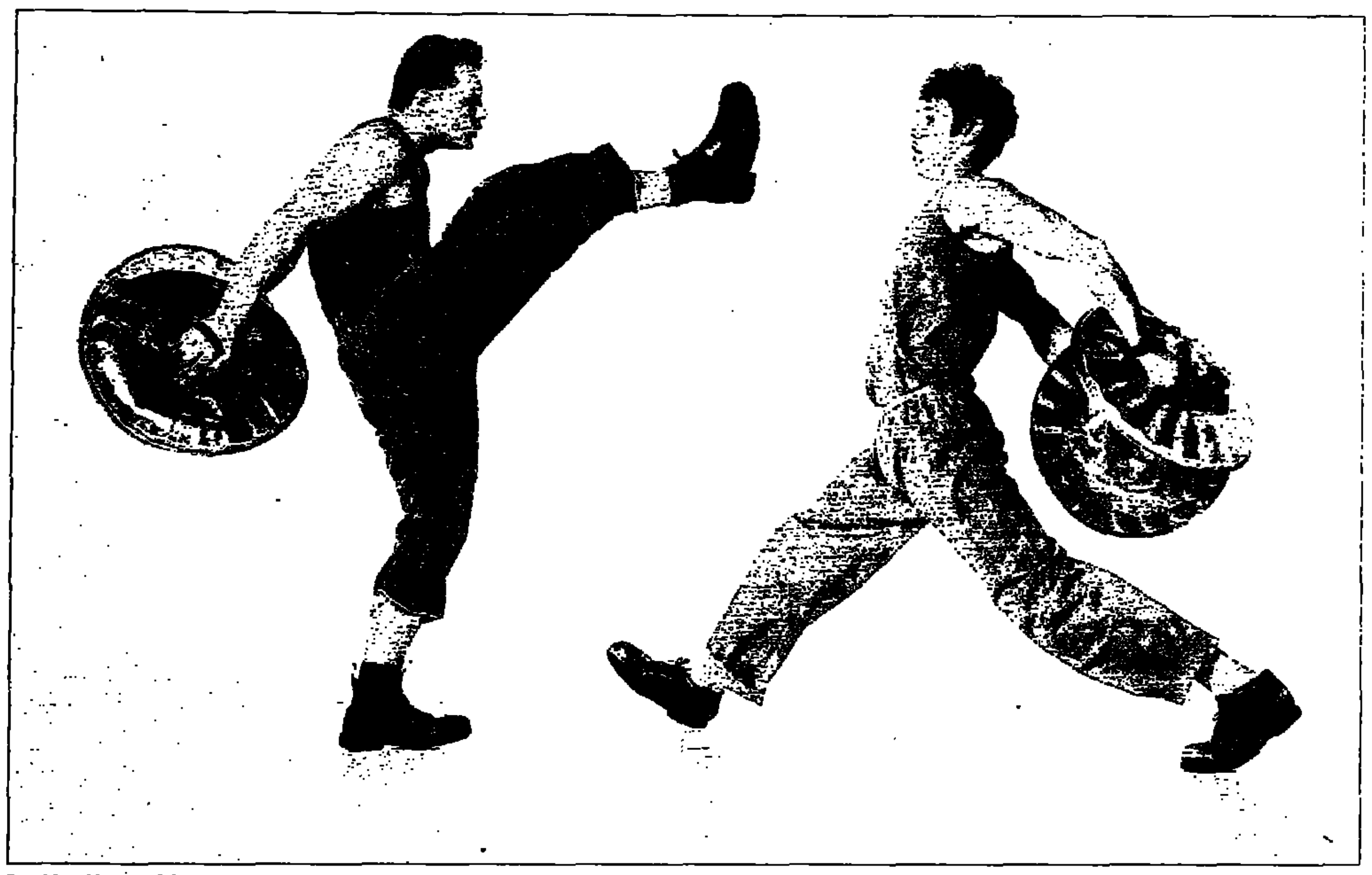
ADELAIDE
Three cycles of Wagner's *Ring* are being performed at the Festival Theatre, starting on Wednesday. The production, conducted by Jeffrey Tate and staged by Pierre Strosser, is from the Châtelet in Paris. This is the first *Ring* in Australia since 1913.

AMSTERDAM
Depending on which way you look at it, the Peace of Münster in 1648 was either a great moment for Dutch independence or the death knell of the Spanish empire. Holland has been celebrating the 350th anniversary of this event all year, looking at the period from a Dutch perspective. Now comes an exhibition at De Nieuwe Kerk which explores the Spanish point of view, contrasting the sumptuous court culture of the Golden Age with the decline of empire. Most of the 300 treasures on show come from the Prado, including works by El Greco, Velázquez and Zurbarán. It opens on Friday and runs till next March.

BARCELONA
The Fundació Joan Miró is marking the centenary of the birth of René Magritte with the first solo exhibition in Spain devoted to the Surrealist painter. Opening on Friday, it contains 75 works, grouped according to five recurrent themes in Magritte's *oeuvre*.

LONDON
A big week for musical entertainment starts at The Donmar Warehouse, which has become London's leading home for Stephen Sondheim's musicals new or old during the 1990s. Tonight it presents the opening of John Crowley's new production of his psychodrama about children's stories, *Into the Woods*, last seen in the West End ten years ago . At Sadler's Wells, tonight and tomorrow, Erich von Stroheim's "silent" 1927 movie *The Wedding March* (left) is shown with a new Carl Davis score, played live. Fay Wray, its female star, will attend.

Over the next four months, the French Canadian pianist Louis Lortie will perform all Beethoven's piano sonatas at the Wigmore Hall. The first of seven concerts is on Friday. Ewan McGregor returns to the London stage in his uncle Denis Lawson's new production of David Halliwell's play *Little Malcolm and his Struggle against the Eunuchs* on Wednesday at the Hampstead Theatre.



Dustbins, kitchen sinks – this is percussion as movement, where simple material is turned into a complex experience

Just mad about the rhythm

What is 'Stomp' and why has it become such a phenomenal success? **Alastair Macaulay** talks to its founders

"Bienvenu au spectacle de Stoemp". It is a Saturday afternoon in Brussels. There is a comical touch of Inspector Clouseau in the pronunciation of the final word, but nothing to deter the several thousand people who are ready to see – and hear – this remarkable British phenomenon.

Stomp has come a long way since Edinburgh 1991, where I was one of an audience of six who attended the late-night performance in the Assembly Rooms. Since then, Stomp has become one of the British success stories of the 1990s. Today, there are multiple Stomps: the company performing Stomp in Brussels, as part of a European tour, is one of four or five. One Stomp has been running in New York since February 1994; other Stomps are touring the world. There are about 100 Stomp performers worldwide.

So what is Stomp? Stomp is rhythm rendered spectacular; it is percussion as movement; it is simple material turned into complex experience; it is art made out of the everyday. Stomp has no glamour. The guys (sometimes the team includes a girl or two) are dressed in basic urban kit. They might be streetwise urchins: the Artful Dodgers of our day. Brooms, dustbins, Zippo lighters, kitchen sinks ... with these, the eight (sometimes more) performers of a Stomp show make sounds, and then turn the sounds into metre, and then build patterns and crescendos, until your mind overflows with rhythm.

When they are not performing, the makers of Stomp live in Brighton, on the South Coast. I asked the company's two directors, Luke Cresswell, who is also the central performer, and Steve McNicholas, about the other original members of Stomp. "They're all still involved," says Cresswell, "Nick Dwyer I've known since I was 14, Fi [Fiona Wilkes] a little later." McNicholas: "They only leave in wooden boxes."

The name "Stomp" evokes the old jazz era of such songs as "Stomping at the Savoy". Cresswell explains the link: "I love Busby Berkeley musicals: the energy, the people, the use of the camera. And the Nicholas Brothers, especially in *Stormy Weather*. Fred Astaire, of course." Interestingly, the Astaire solos he discusses are from two of the most rarely seen films. "There's an amazing solo he does with a drum set" – in the 1938 film *A Damsel in Distress* – "that's very inspiring. And another he does by the bar to 'One for my Baby'" – in the 1943 film *The Sky's the Limit* – "has a kind of bitterness and aggression he only developed during the 1940s."

Stomp, however, is *not* a dance show. "None of us had dance training; no, one did. And I don't go to see much dance. Stomp is essentially *music*. The stage is a *drum*. The UK has been leading the way in rhythm, again and again."

Yet the two productions that inspired Cresswell and McNicholas to create Stomp were from abroad: the Kodo drummers from Japan and the Barundu drummers from Africa. They showed them the possibilities for making rhythm spectacular. "We're not experts in other rhythmic traditions. I'm not interested in giving workshops in African or Spanish rhythm – but I just say 'Go and see a samba band!'" says Cresswell. They are simply tapping into the way people behave: "I guarantee in every country kids are doing material like ours with Coke bottles around the corner."

Wherever Stomp performs, people see a connection to local traditions of rhythm. "When we performed in Spain, they said, 'We can see what you've taken from flamenco!' Well, we like flamenco, too, but that didn't inspire us."

Now that there are multiple Stomps, how do they audition performers? "There are no criteria," Cresswell replies. "Agents keep sending us the wrong types. But a bouncer can try to have a go. We like an unusual mix of people. One New Yorker who auditioned was really little, and fantastic; another was a big overwrought black, and he was great, too."

There *must* be criteria, I suggest. "Well, all right, yes. We're looking, above all, for rhythm. Then for humour. And then for a sense of identity – even if they don't know they've got it. Each new mob of performers has to be a mix of different energies. We begin by testing them for a *latent* sense of rhythm. We've only twice ever been wrong in whom we've chosen."

'We're not experts in other rhythmic traditions . . . but I guarantee in every country kids are doing material like ours with Coke bottles around the corner'

But running multiple Stomps, and keeping all the shows fresh, takes a lot of work. McNicholas says: "You have to keep the spontaneity going. So we change the companies. The New York show is in its fifth year now, and some of the cast have been in it for four years. But the show needs a sense of competition onstage; a few touches of one-upmanship." Cresswell adds: "We send in one or other of the originals at intervals. We make surprise visits and go in incognito."

There are three major projects: a film, in which all 100 Stomp performers will be involved ("Speaking words will be a good challenge for us"); a stage musical ("There are almost no contemporary musicals – even on the rare occasions that musicals today are modern-dress, they're singing in outdated music. Why doesn't Lloyd Webber just come clean and write an opera?"); and then a film without words. The Stomp performers have also worked frequently on TV – most notably, the Oscar ceremonies of 1994 – and have recently made a 50-minute video, *Stomp Out Loud*.

London has seen only two short – although sensational – Stomp seasons: at Sadler's Wells in 1993 and the Royal Festival Hall in 1995. Now the company is preparing its first season at the Roundhouse. "There'll be several new features – we keep adding. In the *Stomp Out Loud* video, there's a whole scene set in water that's new. Leave me alone for a month, and I'd come up with a whole lot more ideas. But I'm lucky these days if I get half an hour. Ideas need time to grow in your head." McNicholas adds: "We *strive* to do something that hasn't been seen before."

There is a touch of patriotism in the way Cresswell and McNicholas speak of British rhythm. At the low-key end of the *Stomp Out Loud* video, Cresswell is seen descending in an elevator with an old man; Cresswell, possessed by rhythm, is still kicking and slapping the floor. Finally, the old man, a po-faced American, after looking askance, says: "A limey with rhythm! If pigs could fly ... I've seen it all."

At the Roundhouse, London NW1. The video 'Stomp Out Loud' is released by VCI, £14.99.

THEATRE THE BELFAST FESTIVAL

Blurred focus on tarnished images

This year's Belfast Festival begins with two plays offering differing perspectives on icons and images: at the Lyric Theatre, David Pownall's *Getting The Picture* blends 19th-century Irish liberationism with photography, while St Anne's Cathedral hosts a production of *Murder In The Cathedral* which replaces the liturgical heart of T. S. Eliot's work with an arsenal of spasmodically malfunctioning technical gewgaws.

Pownall's play (produced in association with the Atlantic Bridges cultural organisation) jumps off from the historical point in 1845, when, shortly before his death, the former American president, Andrew Jackson, sat for the pioneering photographer, Matthew Brady. With this, the playwright interweaves a visit from a young Ulster woman, intent on persuading Jackson to throw his public support behind Daniel O'Connell's Repeal movement; and Jackson's negro housekeeper, who constantly petitions him to free from slavery his own children by her.

Will Hargreaves' design makes the play's motifs visually explicit, ranging blank picture frames against opaque windows, and dominating the upstage area with a huge frame within which are projected various photographic images, and through which young Sorcha Kinlock (Jasmin Russell) enters.

Jackson, the hero of the Anglo-American war of 30 years earlier, is an icon: his support for the O'Connellites would put pressure on the British, his daguerreotyped image in Brady's New York window brings in extra custom – but how can the image of such a liberator be reconciled with Jackson's continuing and unyielding status as a Tennessee slave-owner?

Eoin O'Callaghan's production does not falter at Pownall's sporadic overwriting, either of lines or plot. Chris Crooks rumbles nicely as the elder statesman, and if Micéal McBrian is a little monochrome as Brady (playing the accent more than the lines), Russell moves confidently beyond her early principal-boyishness as Sorcha.

Although its construction was completed relatively recently, St Anne's Cathedral is not architecturally modern; its majestic stone cavern is a setting in keeping with the high-Anglican stateliness of *Murder In The Cathedral* – Eliot had, after all, written his dramatisation of the martyrdom of Thomas Becket for performance in Canterbury Cathedral.

All things considered, then, it may not have been advisable for director Michael Poynor to stand his principal actors on mobile tubular-steel pulpits to be wheeled around by cowled, white-masked supernumeraries. Nor, having made that decision, to be unable to afford or accommodate enough of these monstrosities, so that some of the actors have to be left out of climactic confrontation scenes; nor to affix thereto badly-focused lights, which inconsistently illuminate either the actors' faces or the cathedral's vaulting.

The similarly malfunctioning radio microphones – which caused one performer to corpse on Wednesday night – were the icing on the mechanical cake. And I haven't even mentioned the acting.

Poynor might be trying to make the point that this story of Becket is removed from modern religious experience, or that those who propel the action are not the antagonists we see immediately before us. Alternatively, he may have believed that this ridiculous gimmickry would be impressive in itself. Whichever interpretation may be true, he is sorely mistaken.

Ulster Theatre Company seems to contain elements of training, youth, amateur-dramatic and semi-professional work; however, neither play nor Festival programme mentions this. Consequently, this production must be judged entirely by the standards of an international arts festival; by those standards, it is woefully inadequate.

Ian Shuttleworth

The Belfast Festival continues until November 29 (01232-665577).

INTERNATIONAL Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
The Rake's Progress: by Stravinsky. Conducted by Reinbert de Leeuw in a staging by Peter Sellars. Cast includes Donald McIntyre, Thomas Randle and Willard White; Nov 18, 20

BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
Cinderella: new staging by Roberto de Oliveira. The title role is danced by Tamako Akiyama, and the conductor is Peter Ernst Lassen; Nov 17

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
● Chicago Symphony Orchestra: conducted by Riccardo Chailly in works by Ravel and Rachmaninov. With piano soloist Ivan Moravec; Nov 17
● Chicago Symphony Orchestra: conducted by Riccardo Chailly in works by Mahler and Mendelssohn. With mezzo-soprano Petra Lang and baritone Simon Keenlyside; Nov 19, 20, 21, 22

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Ariadne auf Naxos: by R. Strauss. New production by John Cox, conducted by Robert Spano. Cast includes Deborah Voigt and Susan Graham; Nov 17, 21

EDINBURGH

OPERA
Edinburgh Festival Theatre
Tel: 44-131-529 6000
● Scottish Opera: Tristan und Isolde, by Wagner, in a production by Yannis Kokkos, directed here by Peter Watson and conducted by Richard Armstrong. Cast includes Jeffrey Lawton and Eva-Maria Bundschuh; Nov 17, 21
● The Magic Flute: by Mozart. Scottish Opera production by Martin Duncan, conducted by Richard Fames; Nov 18, 20

HELSINKI

DANCE
Finnish National Ballet
Tel: 358-9-403 021
Giselle: staging by Sylvie Guillem. With sets and costumes by Ramón B Ivars. Conducted by David Garforth; Nov 19, 20

HUDDERSFIELD

CONCERTS
Huddersfield Contemporary Music Festival
Tel: 44-1484-430 528
● London Sinfonietta: conducted by Elgar Howarth in works by Simon Holt, Luis de Pablo and Elliott Carter. With piano soloist Rolf Hind and clarinet soloist Michael Collins; St Paul's Hall; Nov 20
● University of Huddersfield Symphony Orchestra: and Symphonic Wind Orchestra conducted by Barrie Webb and Phillip McCann in works by Tüür, Torke, Cutler and Meij. With saxophone soloist James Fieldhouse; St Paul's Hall; Nov 18

OPERA
Huddersfield Contemporary Music Festival
Tel: 44-1484-430 528
Opera North: The Nightingale's to Blame. World premiere of a new opera by Simon Holt, based on a play by Lorca, translated by David Johnston. The conductor is Nicholas Kok and the staging is by Martin Duncan; Lawrence Batley Theatre; Nov 19, 21, 22

LONDON

EXHIBITION
Royal Academy of Arts
Tel: 44-171-300 8000
The Au Bak Ling Collection: 100 Masterpieces of Imperial Chinese Ceramics, 12th to 18th centuries. Includes works from the Song, Yuan, Ming and Qing dynasties, which together provide a remarkable overview of the finest Chinese porcelains ever made; from Nov 17 to Dec 20

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
Boris Godunov: by Mussorgsky. Conducted by Paul Daniel in a new staging by Francesca Zambello, with sets by Hildegard Bechtler. John Tomlinson sings the title role; Nov 18, 20

MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
● Alfred Brendel: recital by the pianist of works by Schubert and Mozart; Nov 17
● Vienna Boys Choir: 500th anniversary concert, featuring works by Mozart, Schubert, Mendelssohn and Brahms; Nov 20

MARTIGNY

EXHIBITION
Fondation Pierre Gianadda
www.gianadda.ch/index.html
Paul Gauguin retrospective: organised to mark the gallery's 20th anniversary. More than 100 works have been borrowed from public and private collections around the world; to Nov 22

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Munich Philharmonic Orchestra: conducted by Zubin Mehta in works by Liszt, Beethoven and Berlioz. With piano soloist Radu Lupu; Nov 21
● Orchestre National de France: conducted by Charles Dutoit in works by Falla, Ravel and Dvorák. With piano soloist Jean-François Heisser; Nov 16

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
Der Freischütz: by Weber. Conducted by Zubin Mehta in a new production by Thomas Langhoff, with designs by Jürgen Rose. Cast includes Petra-Maria Schnitzer and Peter Seiffert; Nov 19

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
● New York Philharmonic: conducted by Christian Thielemann in R. Strauss's Alpine Symphony; Nov 18
● New York Philharmonic: conducted by Christian Thielemann in works by W. Schuman and R. Strauss. With cello soloist Carter Brey; Nov 19, 20, 21

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Tosca: by Puccini. Nello Santi conducts and the cast includes Maria Guleghina and Richard Leech; Nov 16, 20

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Herbert Blomstedt in works by Britten, Beethoven and Hindemith. With violin soloist Frank Peter Zimmermann; Nov 18, 19, 20, 21

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
Peter Grimes: by Britten. Conducted by Donald Runnicles in a staging by John Copley, with sets by Carl Toms. The title role is sung by Thomas Moser; Nov 17, 22

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
Orchestre de Paris: conducted by Georges Prêtre in works by Bizet and Berlioz; Nov 16

EXHIBITION
Metropolitan Museum of Photography
Tel: 81-3-3280 0031
Love's Body: Rethinking Naked and Nude in Photography. Includes works by Alfred Stieglitz, Robert Mapplethorpe and Catherine Opie; to Jan 17

WASHINGTON

OPERA
Washington Opera, Kennedy Center
Tel: 1-202-295 2400
www.dc-opera.org
Fedora: by Giordano. Conducted by Roberto Abbado in a production by Lamberto Puggelli, directed here by David Edwards. The cast is led by Mirella Freni and Placido Domingo; Nov 17, Nov 20

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PERSONAL VIEW DOMINIQUE MOISI

Mutual surrender

Britain should take more practical steps to link its fate with the rest of Europe; just as France should now reconsider its studious distance from Nato

We shall never surrender. Winston Churchill's words resounded once more in Paris as his statue was unveiled last week by Queen Elizabeth and President Jacques Chirac of France. The rhetoric is familiar, even comforting, but behind the protocol and fine words the ambivalent feelings France and Britain hold for each other have not changed much in 50 years.

It was Churchill who also said that, given a choice between Europe and *Le Grand Large* (the Atlantic), he would choose the latter. But Churchill the realist would not have been surprised by the new direction of British foreign policy: destination Europe. Britain simply has no choice.

Whereas previous British governments cultivated a special relationship with Washington to increase their influence while maintaining a separate British identity – not unlike France's strategy in Europe – today, the British have today started to see their distance from Europe as a useless and costly self-isolation mechanism – again, not unlike the way the French have come to view their qualified membership of the North Atlantic Treaty Organisation.

The British can afford to stay out of Europe even less than the French can afford to stay out of Nato. It is in their strategic interest to be part of the euro and to be present at the re-creation and deepening of the European Union.

Of course, Tony Blair, the British prime minister, must consider the sensitivities of a public which has still to be prepared for such a revolutionary change of identity.

The French, for their part, are aware of the strategic evolution of Britain towards Europe even if they do not acknowledge one of its indirect consequences for them: that the more European Britain becomes, the closer France will have to move towards Nato.

Britain's Queen Elizabeth II and French President Jacques Chirac

Yet the French are also quick to underline the gap between British words and deeds. So far, Mr Blair's contribution to the European Union has been more about style than content. What he has brought to the EU is, above all, a change in mental attitude. Mr Blair may be the only European statesman in power today to ask his colleagues to imagine what Europe should look like in 20 years' time, even if he has yet to deliver his own views and proposals.

Europeans have been disillusioned so often in the past that it would be imprudent to celebrate these positive transformations too soon

The absence of concrete actions by Mr Blair's government is evident in its defence policy. Robin Cook, British foreign minister, may wish to introduce greater morality into Britain's relations with the world; he may even want a code of conduct for British weapons manufacturers and arms exporters, but very little seems to have been done to achieve this. So it is hardly surprising that the French still perceive British companies as fierce, cynical rivals ready to exploit every French weakness in the global marketplace.

Many in France suspect British defence industrialists of shedding crocodile tears over the time the French government has wasted in getting its defence industry ready – that is, privatised – to face the challenge of globalisation. British and German defence industrialists have found redeeming values in French tardiness.

Yet these legitimate but petty quarrels and recriminations should not hide an essential fact: Europe is changing, and Britain's evolution constitutes a decisive element of this structural transformation.

As Britain moves slowly but irresistibly towards Europe, Germany is adopting a more "normal" stance towards the notion of power and national interest. Slowly, too, Germany is accepting the fact that power may mean military might and that the German army, for example, like its British and French counterparts, may have to adopt an interventionist stance.

The French are also changing. They are adopting a different diplomatic stance towards the US and Nato.

A more European Britain, a more nationalist Germany, a slightly more Atlanticist France – these are the ingredients for a more significant European presence in the world. Increasingly the three countries have more in common, and not only because they all have centre-left governments.

Europeans have been disillusioned so often in the past that it would be imprudent to celebrate these transformations too soon. But the parameters of Europe are slowly changing, as if the federative shock of the euro were already manifesting itself even before Europe's single currency is launched.

These fundamental changes have not yet begun to influence the way European governments "sell" Europe to their home audiences. Governments are still promoting an essentially defensive message: Europe today is protecting its citizens from the contagion effects of global financial chaos, just as it has successfully protected its citizens from possible threats in the past such as wars between France and Germany.ensured decades of peaceful co-existence among former world war foes.

This is a rather negative message, which is not in tune with the ambitions and world responsibilities of a reborn and enlarged EU that should be legitimately proud of its present and past performance.

But for a continent that has experienced many self-inflicted tragedies in this century, this may be the only realistic message, at least for now.

LETTERS TO THE EDITOR

Government cannot take comfort from McKinsey

From Mr John Redwood MP.

Sir, Samuel Brittan ("A lopsided debate", November 12) gives a guarded welcome to the recently published report by McKinsey, the management consultants, painting a depressing picture of UK productivity. But the government, which likes the report, cannot take comfort from his words.

The message of the report is that the UK is way behind its main competitors in terms of output per head and productivity. But does the government understand the figures on which this view is based?

In making cross-country comparisons, McKinsey has converted its figures at lower exchange rates than recent market ones. No wonder Britain comes out badly. If McKinsey had used market rates and compared the UK with the whole of Germany (not just western Germany), there would not have been such an unfavourable gap.

If a valid comparison of output per head across frontiers is to be made, the figures must at least be converted to a realistic currency base and compare complete countries.

Ministers should study the McKinsey Report more carefully. Even if its findings are accepted, the report does not offer much comfort for the government.

It concludes that the main reason for Britain's perceived low productivity "lies in the effect of regulations governing product markets and land use on competitive behaviour, investment and pricing".

Given the way ministers have praised the report, we must ask accordingly when the government is going to sort out the very regulations which McKinsey blames for the problem.

The government cannot shelter behind the idea that managements are responsible for land use restrictions. Many managements would like more planning permission for new premises, but government at local and national level blocks them. Is this government prepared to antagonise many in the electorate by granting more of the planning permission business wants? How would this square with their policy of restricting development, protecting green areas, and favouring town centres against out-of-town developments?

Nor can government blame managements for "product market" restrictions. Some of these have been created by UK governments, and some come from Brussels. This government prides itself on having influence in Brussels. But when will its fine words translate into policy?

As McKinsey argues, the UK milk industry is hampered because farmers are not allowed to produce enough raw milk in Britain for domestic needs, the motor industry is protected with higher prices, and regulatory decisions in telecommunications have kept call charges much higher than in the US.

Is the government going to tackle all these problems?

I doubt that the government will want to make the changes to land use planning and telecoms regulation that the McKinsey report recommends. I do not suppose they can persuade our partners in Europe to abolish milk quotas or other restrictions on the UK's trade with its continental European partners.

Some UK companies are world leaders. Others could do better. There is no case to denigrate industry as a whole, especially after the profound transformation under conservative policies in the 1980s.

John Redwood,
shadow secretary of state for trade and industry,
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Stick with common sense till the oil and water mix

From Mr Michael Pearce.

Sir, It seems quite extraordinary that your leader of November 3, "The euro two-step", should be exhorting the government to declare itself fully committed to taking Britain into the single currency and give up the hard-won "wait and see" option; two days later, with "The European blame game" (November 5), it gives us five extremely good reasons for doubting the political and financial coherence of those responsible, and therefore the argument for joining.

We can (indeed should) all applaud the concept of a single currency in ideal conditions, but those conditions can come about only after the appropriate economic, fiscal, industrial and social policies have been identified and enacted. We are a very long way from this Utopia. Surely even the FT, a long-time supporter of the single European currency ideal, must agree that until we can see clearly that the oil and water of European economics and politics can be made to cohere, our government must stick with common sense and leave such a decision until we have seen the euro work over a full economic cycle.

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'Poor' nations run by kleptocrats following a different agenda

From Karl A. Ziegler.

Sir, Jeffrey Sachs' Personal View ("Stop preaching", November 5) embodies the worst elements of liberal economic thinking, with the assumption that the "poor" nations have leadership that can help to establish a global dialogue of any relevance to their poor nationals' misfortunes. The majority of "poor" nations today are typically managed by kleptocrats, whose least concern relates to looking after their poorest citizens.

The US initiative, by president Bill Clinton's "minority-friendly" government, to establish a Group of 22 "systemically significant economies", coupled with Kofi Annan's call for the UN to take on "an important role in global economic reform", seems to be premised on the assumption that the world's "poor" have a real say in their plight.

The ruling elites in many of the world's poorest nations are on a totally different agenda, as Jeffrey Sachs, Bill Clinton and Kofi Annan must know.

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ECONOMIC NOTEBOOK GILLIAN TETT

Financial socialism, Japanese style

More government funds for cash-strapped banks will only delay the birth of a more competitive financial system

Is Japan having second thoughts about its "Big Bang" reforms? Judging from the government's recent antics, it might seem so.

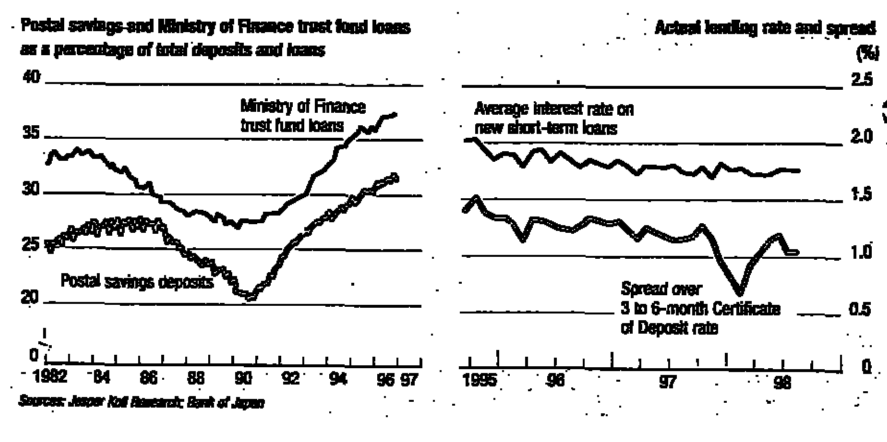
Two years after it pledged to liberalise its financial markets, Japan will this week take two striking measures designed to raise, rather than lower, the government's role in the banking world.

The first measure will be included in the Liberal Democratic Party's latest Y18,000bn (£88bn) stimulus package, due to be formally unveiled today. Aside from the headline-grabbing tax cuts and public spending projects, at least Y5,000bn of public funds are believed to have been earmarked for the provision of cheap loans to the corporate sector. Already, Nissan Motors, the car group, is preparing to apply for a Y100bn from the Japan Development Bank, a government entity.

The second measure is less obvious. On Friday the Bank of Japan's independent policy board approved a new emergency lending programme, which will probably start today. The operational details are complex. The bank will, for example, accept corporate bonds as collateral for loans to private banks for the first time. It will also expand its temporary purchases of commercial paper (short-term financing instruments).

What these measures add up to is that the central bank will be pumping more money into private banks which pledge to lend the cash to their corporate clients, irrespective of credit risk. Meanwhile, the central bank is exposing itself to even more corporate risk by agreeing to hold corporate securities temporarily.

Neither of these measures is entirely novel. After all, the bank has already increased its provisions of yen liquidity during the last year. For example, it now holds about 40 per cent of outstanding commercial paper after starting a CP repurchase scheme last year to provide banks with more liquidity.



The government has also lent to the corporate world for decades. As Jesper Koll, an economist, points out, the role played by the state-owned postal savings system and Trust Fund Bureau (a government body that lends out the postal saving funds to institutions such as the Japan Development Bank) has risen in recent years.

The measures to be announced today are unlikely to be the last. The Export-Import bank, another state institution, is considering extending $3bn in loans to cash-strapped Japanese corporations. More controversially, the ministry of finance has hinted it might use foreign exchange reserves to make dollar deposits at Japanese banks that are having difficulties raising non-yen funds in private capital markets.

New or not, such policies do not gell with the original intentions of Japan's Big Bang. After all, what Big Bang was supposed to do was to reduce state involvement in the banking sector and encourage the growth of private capital markets. Instead, the financial crisis of the past year has left the government not only with the role of regulator but as the most important intermediary in parts of the financial system. Or, as one senior financial bureaucrat quips, only half in jest: "We are now inventing a type of financial socialism in Japan."

Is this harmful for Japan's economy? Government officials say it not, since the measures are intended to be only temporary. After all, one reason for Japan's credit crunch is that banks have had to clean up their loan books to meet Big Bang's tightened capital adequacy standards. Extending state loans, government officials say, could avoid debilitating bankruptcies and help commercial banks restructure their balance sheets.

The officials add that pumping yen into the money markets will stabilise financial markets, eventually creating the conditions for broader banking reform. A temporary bout of "financial socialism", they say, might be precisely what is needed to create a healthy free-market banking system in the future – and, more immediately, a stronger economy.

But this logic carries potential problems. To begin with, it is difficult to believe that the recent measures will be "temporary", given the government's history of meddling and procrastination.

Shielding weak companies and weak banks from genuine market pressure is more likely to stave off badly needed corporate restructuring, than to promote rapid change. The measures are also unlikely to encourage the creation of a profitable lending business in a market dogged by overcapacity. As the Organisation for Economic Co-operation and Development has pointed out, bank lending margins have barely risen over the last year, in spite of the apparent credit squeeze (see chart).

But the greatest danger is that these measures will simply leave the government holding more bad loans. The Bank of Japan and ministry of finance insist that "prudent" lending requirements are attached to funds being made available to private banks and companies.

But suspicion is growing that the Bank of Japan will not recover "temporary" loans extended to the failed Yamaichi Securities last year, for example. Meanwhile, the LDP's plans include the startling proviso that the Japan Development Bank must only lend to companies whose credit ratings are too low to raise private capital easily.

In the short term, such risks might seem minimal compared with the danger of a deepening recession. But pressures on public finances are growing. Unless the government can prove itself to be unusually competent now, postponing genuine financial competition today will only store up yet more financial trouble for Japan tomorrow.

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FINANCIAL TIMES

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Monday November 16 1998

Gambling on Brazil

The US administration and the International Monetary Fund have placed a huge bet on Brazil and, above all, on its ability to regain the confidence of domestic and foreign investors. Only then will interest rates fall to levels consistent with renewed growth. Policy-makers are, in effect, playing a confidence game against markets.

Of the $41bn in international support over the next three years, roughly $37bn is available, if needed, in the next 12 months. Of this the IMF is providing some $18bn: $9bn is to come from the World Bank and Inter-American Development Bank; and $14.5bn is from 20 countries, with the US contribution set at $5bn.

In return for this boost to liquidity, Brazil is committed to achieving a primary budget surplus (balance, before interest) of 2.6 per cent of gross domestic product in 1999, 2.8 per cent in 2000 and 3 per cent in 2001. The immediate fiscal adjustment is over 3 per cent of GDP. But Brazil has rejected the idea of altering the exchange rate regime. Furthermore, private creditors are not being asked to contribute to the package.

Will this work? That depends on three things: confidence; policy performance; and growth.

Despite recent declines, short term real interest rates in Brazil are running at well over 30 per cent. Such high real rates of interest are inconsistent with fiscal stability and renewed growth. If market confidence is not soon restored, the economy is set to labour under a crippling interest-rate burden.

The fiscal programme announced by the government is, by general consent, the most important determinant of confidence. Yet experience suggests that such promises are not always kept – and are not even within the government's power to keep. Much depends on how far Congress and the states co-operate.

The economy is already expected to contract by 1 per cent next year – a decline in real income per head of 2-3 per cent. This is not surprising. The fiscal programme is contractionary, as are high interest rates. The defence of the exchange rate regime also precludes more than a modest boost from external demand. Unless interest rates fall sharply, the recession is likely to be prolonged and unpopular. This will, in turn, make fiscal adjustment more difficult, further undermining confidence.

The bet taken by the lenders to Brazil is that a virtuous circle of lower interest rates, policy success and renewed growth will now ensue. If what happens is the reverse, the package will surely collapse – and so will the reputations of those who bet on it. Both outcomes are readily imaginable. The gamblers can now only hope.

Speaker's task

The king is dead. Long live the king. Following Newt Gingrich's resignation as speaker of the House of Representatives, Robert Livingston is almost certain to replace him on Wednesday. He will have two main challenges: to steer the impeachment saga to a swift conclusion and to unite divided Republicans around a new and more constructive legislative agenda.

Mr Livingston has said that public opinion will guide him on the impeachment question. The electorate has clearly spoken in the mid-term elections. Although it does not condone President Bill Clinton's behaviour, the public does not want him impeached either. Moreover, the Republican failure to make gains in the election means that, even if the House were to impeach, it is highly unlikely the Senate would then convict.

Mr Gingrich has already taken responsibility for the failed Republican gamble on impeachment. Mr Livingston, who has moved quickly to capture the speaker's chair, must move equally fast to ensure the impeachment process is brought to an end – certainly before the end of the year. To achieve this, he should try to persuade the House Judiciary Committee to bring the matter to a close shortly after Kenneth Starr, the special prosecutor, testifies on Thursday.

He would then face a clean sheet when he is sworn in, along with the 106th congress, in January. By securing a bipartisan approach to closing the impeachment process, Mr Livingston could promote a more constructive and less partisan congress.

As chairman of the House Appropriations committee, he won a reputation as a fierce conservative, but also as a dealmaker who can work both with moderates in his own party and Democrats to advance an agenda. He must now do the same on a bigger stage.

This will be no easy task. The Republican Party is in disarray, while the new House is almost equally divided between the majority and minority parties. Along with the other members of the leadership team decided by Wednesday's vote, Mr Livingston must persuade the Republicans to unite around a more co-operative approach to legislation.

Success with these two tasks would also improve the Republican Party's image before the 2000 election. The battle for the soul of the party will be fought out by contenders for the Republican presidential nomination, not in the House. The speaker's role is unlikely to be the high profile position Mr Gingrich made of it. However, the 105th congress accomplished little of note. Mr Livingston's task is to ensure the 106th does *rather* better.

Smoked out

The best that can be said about the proposed US tobacco settlement is that, by pushing up the price of cigarettes from an average of $2.05 a pack to about $2.60, it may slightly reduce the number of cigarettes Americans smoke. Otherwise, there is little in the deal to praise or celebrate.

True, there are one or two sops to public health – a voluntary ban on outdoor advertising, and funds for anti-smoking campaigns – but one of the deal's many unappealing aspects is that it will result in a transfer of wealth from smokers, who tend to be among the poorest Americans, to lawyers, who are already among the richest.

It is worth recalling that the settlement came about not out of a desire to reduce smoking but because entrepreneurial trial lawyers, having repeatedly failed to persuade juries to award damages to sick smokers, were looking for new and more successful ways to tap into the cash generated by cigarette sales.

Their inspiration was to separate the issue of smoking from personal responsibility. They argued that, whoever was to blame when smokers became sick, it was certainly not state governments: so states should be compensated for the money they spent treating sick smokers under the Medicaid public health programme.

It was a clever approach. The argument would not necessarily have prevailed in the courts – the states, after all, already tax cigarette sales – but the risks were high enough, and the sheer scale of the litigation so great, that the tobacco companies considered it better to settle than to fight.

The sums involved are mind-boggling. The 46 states that have not already reached out-of-court settlements will receive payments totalling $206bn over 25 years – five times the size of the International Monetary Fund's rescue package for Brazil.

It is not yet clear what the lawyers' cut will be. But the costs will be passed on to smokers in the form of a surcharge – a tax in all but name – on the price of cigarettes.

It is a bizarre, and unsatisfactory, outcome. Smoking is an important public policy issue directly affecting the health of millions of people. Tobacco regulation and taxation are matters that citizens rightly expect their governments to address, not to be thrashed out by cadres of lawyers motivated by the pursuit of profit.

Congress tried and failed to resolve the tobacco issue this year. Perhaps this deal is the next best thing. But it is a sad indictment of the US political system that trial lawyers have started dictating public policy.

Cross-selling's elusive charms

The rewards of selling several financial products in one package can be spectacular. But few companies have attained this goal, says **John Authers**

Across the US financial services industry, companies are looking for a holy grail: the cross-sell.

The goal is deceptively simple: persuade customers who are already going to buy one product to buy more. The spectacular rewards that can be had from cross-selling have been the driving force behind a spate of recent mergers, while banks are investing in "brand-awareness" campaigns in an attempt to sell several products in one package.

The "mega-merger" of Citicorp, a bank, with Travelers Group – a conglomerate including fund management and insurance – to form Citigroup is the best-known example of a cross-selling alliance. There is little overlap between the businesses, and the merger, as announced, was predicated on building revenue, not cutting costs.

Many other companies are looking for cross-sales on a smaller scale. Conseco, a life assurance conglomerate which is the largest seller in the US of policies that guard against serious or prolonged illness, has bought Green Tree, the largest US consumer lender.

Last week State Farm, the largest general insurer in the US, said it would be opening its own bank so that its 16,000 insurance agents could offer mortgages and other loans. Numerous banks have bought up fund management companies, credit card issuers and retail brokers to try to pump out more products.

But there is deep confusion over how to cross-sell. Its history is strewn with failures. During the 1980s, several attempts at creating "financial supermarkets" were notoriously unsuccessful, although why they failed remains contentious. The unhappy experience of Dean Witter brokerage, which combined with the Discover credit card brand under the roof of Sears, the retail chain, suggests that a retailing environment was not appropriate for selling complicated financial products. American Express' ownership of the Shearson Lehman brokerage also failed to deliver cross-selling's promised fruits.

Other industries provide few positive precedents. Companies in a position to attempt such a strategy, such as Unilever and Procter & Gamble, with their big stables of branded goods, tend to allow each brand to stand on its own. They only benefit each other through shared distribution networks.

In the 1990s, two new models have emerged for financial services. One involves a direct relationship with the customer, taking his specific needs as a starting point. The other is a manufacturing model, where a company tries to sell a range of its own products, usually in packaged form. Alex Oliver, of the New York-based consultancy Oliver Wyman, says Citigroup may well be "to some degree like the latter, in the clothing of the former".

Eric Speer, head of retail financial services group at Tillinghast Towers Perrin in New York, believes the "relationship" model is most likely to work, because a financial advisor provides a service which is of value in itself. "There's a sense of a comprehensive look at the customer's needs and then the products become the fulfilment of those needs. It's not a manufacturing-based sale, it's a distribution or customer-based sale," he says.

Mr Speer recognises that for this approach to be successful, customers must believe they are getting the best deal in the marketplace for each financial product they buy. "In order to be ultimately credible," he says, "the products you sell can't always be your own branded products. You need to open up your kimono to a broader array of non-branded products."

Companies that have done this successfully include American Express Financial Advisers (AEFA) and Charles Schwab, which established a position as the largest US discount stockbroker before diversifying into a supermarket for the mutual funds of several fund managers.

AEFA only took on the American Express brand two years ago, even through it had been a part of the company for more than a decade. It offers clients a "financial plan", for which a fee is charged. Products from companies outside American Express can be offered.

Between 35 and 40 per cent of its customers now come through the door after being prompted by their American Express card statements. Revenues have increased dramatically. Fees generated by plans account for 65.4 per cent of the brokerage's income.

At the insistence of Harvey Golub, AmexCo's chief executive, cold-calling cardholders is forbidden, as this would *damage* the brand's image.

Within Citigroup, Primerica Financial Services, formerly part of the Travelers empire, has also cross-sold effectively, using financial plans as a backbone. A life assurer, Primerica relies on an 80,000-strong salesforce, who sell the old-fashioned way, sitting down with clients in their kitchens and talking through their financial plans.

Under Joseph Plumeri, Primerica agents were given strong incentives to cross-sell, using a sales device Mr Plumeri calls "Financial Needs Analysis". This put the particular requirements of the client at the centre.

'We told our employees this was the reason that we were in business'

Mr Plumeri, in charge of Citibank's retail branches and credit cards within the Citigroup empire, says: "We made cross-selling part of the corporate culture. We told our employees this was the reason we were in business. We put incentives to cross-sell into the compensation programme."

Wall Street analysts who attended Mr Plumeri's inspirational pep talks for sales representatives, say they left early to resist the temptation of throwing away their jobs in favour of selling insurance.

Primerica accounted for half of all sales of Travelers' Commercial Credit group, and for more than 60 per cent of sales of Travelers' mutual funds.

Citigroup's aim is to inculcate the same cross-selling culture in its Citibank retail branch network. Already, bank branches are offering annuities underwritten by Travelers. Holders of Citibank credit cards have been offered Travelers motor insurance, and all those who bite will be offered home insurance.

In Las Vegas and Atlanta, Citigroup is attempting a more ambitious plan. The heart of the project will see branch employees offering Primerica's "Financial Needs Analysis" to Citibank clients, while sales representatives from Primerica will attempt to sell Citibank cheque accounts.

Will it work?

A big problem for Citigroup is that cross-selling tends to become more difficult as organisations grow larger. Even Mr Plumeri admits that the kind of marketing techniques he implemented so successfully requires a tightly-knit culture.

One of the most effective sales organisations in the US is Fifth Third Bancorp, a large regional bank based in Cincinnati. It generates more revenue in proportion to its cost base than any other bank in the US, and achieves this largely through a sales system borrowed directly from life assurance.

Regular meetings are held where managers from all branches of the business have to stand up in front of the chief executive and their peers to list the best new contacts they have made in a month. Colleagues can thus quickly find out whether they have a chance of selling one of their own products to these clients.

Fifth Third has grown in size, but never through a sudden and rapid expansion like that seen at Citigroup. Instead, it has extended steadily from southern Ohio into Indiana and Kentucky. Its chief executives are still able to attend sales meetings across the network in person. Nothing comparable is feasible for the far-flung Citigroup, with offices in more than 100 countries.

A further problem for cross-sellers is that they are setting their faces against one of the dominant trends of the last decade: the growth of specialists, taking advantage of cheap financing from capital markets, and cheap distribution through toll-free telephone lines, direct mail, or the internet.

Credit cards and home equity loans have seen specialist direct marketers rise to prominence. Americans are now accustomed to treating these products as discrete stand-alone entities to be shopped for separately.

Richard Kovacevich, chief executive of Wells Fargo, another enormous financial institution created by the merger of Norwest with Wells Fargo, suggests this means credit cards are an inappropriate vehicle for cross-selling. As chief executive of Norwest, a Minnesota bank formerly best known for its loans to the agricultural business, he decided against making any significant investments in credit cards (in contrast to Citigroup, which issues more credit cards than any other bank in the world).

Instead, he set about creating a retail culture for the bank. It now has "stores" rather than "branches". When research suggested that current accounts and mortgages provided a strong basis for cross-selling, the bank's strategy changed accordingly.

By the time of the merger with Wells Fargo, Norwest had become the largest mortgage lender in the US so as to maximise cross-selling. It is one of the few successful examples of the "manufacturing" model of cross-selling. On average, each household it served bought 3.71 products from the bank.

When Norwest started monitoring this number four years ago, it stood at just below 2.8. In other words, it would have managed to sell about 30 per cent more products over that period, even without gaining any new customers.

This performance allowed it to muster the capital clout it needed to buy Wells Fargo, a much bigger and more powerful bank.

Wells Fargo's experience provides some powerful lessons for Citigroup, and for other financial groups contemplating mergers.

First, everyone in a company must be imbued with a culture of cross-selling, and receive strong incentives for its success. Second, if cross-selling is made to work, the rewards can be spectacular.

But size, and the ability to offer a broad rage of branded products, is not in itself a guarantee that customers will buy more products from one company. With so many choices, companies must convince their clients that they have the best product in each category of financial service, and not only the best overall package.

Perhaps that is the final, elusive beauty of the holy grail.

OBSERVER

Eggs hit the spot

The sturgeon fishermen of the former Soviet republics are getting a lesson in market economics.

Their best-known product, Beluga caviar, is much prized in New York: by some estimates, more than half the 50 tons imported to the US each year are consumed in the Big Apple. But as this autumn's catch begins to arrive on US shores, prices at the deli counter are soaring.

It is a classic tale of post-Soviet economics. Freed of the Soviet era's tight production limits, fishermen on the Caspian Sea – home to the most prized sturgeon – cast their nets with abandon and caviar prices plummeted.

This couldn't last. The sturgeon, facing extinction through overfishing, was eventually scooped up by the international convention that protects endangered species.

Production limits were reimposed – this time with international teeth. The US, a signatory to the convention, has just begun vetting the origin of caviar imports, even using random DNA tests to make sure the slimy eggs are not arriving under false pretences.

Prices for Beluga have jumped 20 per cent as a result, says Hossain Armaini, whose Paramount Caviar supplies some of New York's top restaurants. The wholesale price can reach $450 a pound and will jump again in the spring, when the last of the caviar imported under the old regime has been eaten.

As long as the benefit finds its way back to the producers, the sturgeon fishermen can ponder on the old free market economists' nostrum: that there's nothing wrong with putting a premium price on a premium product.

Pastures new

European Union agriculture ministers are experiencing a serious bout of revolving door syndrome – eight have moved on since the early summer.

Some of the movers continue to be shakers elsewhere. The UK's Jack Cunningham has taken on the role of government "enforcer", France's Louis Le Pensec has been elected to his country's senate, and Jozias Van Aartsen of the Netherlands is now foreign minister.

But three of them – Jochen Borchert of Germany, Annika Ahnberg of Sweden, and Italy's Michele Pinto – lost their jobs following elections or changes of government. Fernando Gomes da Silva quit office in Portugal for health reasons, and Stephanos Tzoumakas of Greece was a casualty of a government reshuffle.

Now their replacements have to get to grips with the arcane world of the EU's common agricultural policy as negotiations begin for what is likely to be its most far-reaching reform since it was set up 36 years ago.

So spare a thought for Europe's consumers and farmers, who will pay the price if the fast-changing collection of ministers gets it wrong.

Visiting time

There is always a battle for the last word when tough cookies like Malaysian trade minister Rafidah Aziz and US Secretary of State Madeleine Albright start sparring.

At their joint press conference yesterday Rafidah tried to shrug off Albright's suggestion that it was quite appropriate for her to visit Wan Azizah wan Ismail, wife of Anwar Ibrahim, the former deputy prime minister who is facing charges of corruption and sexual offences in a trial that doesn't command much international confidence. Everyone visiting Malaysia was free to meet anyone they chose, said Rafidah.

In fact, she said, she was looking forward to her next trip to Washington, so that she could make a beeline for Kenneth Starr, the man who spent millions embarrassing President Clinton in the Lewinsky affair.

But it wasn't to be a win for the home team. Albright managed to snap: "He's not in prison," before a thoughtful Malaysian technician could turn her microphone off.

Newt work

As Newt Gingrich ponders a future outside politics, he might need something that pays well. The National Taxpayers Union says Gingrich will be eligible for an annual pension of just $24,000 a year – a fraction of the $120,000 a year Tom Foley, his predecessor as House speaker, pulled in.

It seems Gingrich initially spurned the Congressional pensions system after first being elected in 1979. By signing up only in 1989, he was victim of a 1985 change, partly at the behest of Republicans, to show Congress's commitment to cutting costs by making their own pensions less generous. Nice one Newt.

Number crunch

Russia's financial institutions have come up with an intriguing new form of inflation since the central bank indicated last week that it had agreed to save 18 of the hundreds of near-bankrupt banks – those that were "socially and economically important".

But it hasn't yet named the lucky few, and so far at least 20 have claimed that they're in the charmed circle. As so often with Russian banks, nothing quite seems to add up.

The Financial Times

100 years ago

Spain And The States
Paris, Nov 15. The meeting of the Spanish-American Peace Commission, which was to have been held today, was postponed until Wednesday. The "Gaulois" learns that the German Emperor has no intention of intervening in the Philippines question, and will simply content himself during his visit to Spain with assuring the Spaniards of his sympathy.
New York, Nov 15. Mr Long, Secretary for the Navy, has issued orders checking further repairs on the warships in the Brooklyn Navy yard, mobilising the warships New York, Brooklyn, Texas and Indiana in Hampton Roads pending Spain's decision regarding the Philippines.

50 years ago

Wool Pact With Japan
Melbourne, Nov 15. Wool buyers and sellers are in two minds about the Japanese trade agreement under which, among other things, Japan is to buy £4,250,000 worth of Australian wool this season. While everyone concedes that the added competition may be beneficial to sellers, both Australian and British manufacturers have misgivings as to a possible revival of woollen textile competition from Japan.

FINANCIAL TIMES
MONDAY NOVEMBER 16 1998

THE LEX COLUMN

Brazilian breather

The crisis is not over. The International Monetary Fund has learned some lessons over the past year. Its $41bn support package to Brazil was carefully stage-managed to exceed expectations. And it is heavily front-loaded: $9bn will be available immediately and $37bn within 12 months. But the package still has some serious shortcomings. Rather than directly addressing Brazil's central problem – its excessive debt – the money will be used to shore up the government's foreign exchange reserves, to defend the real. Worse, there is no explicit "bail-in" of private creditors. Banks and investors have merely been put under political pressure to remain supportive by rolling over their credit lines.

Everything depends, therefore, on the markets retaining their confidence. Brazil's total ratio of debt to gross domestic product is more than 50 per cent. The critical component is R$260bn ($220bn) of net domestic debt, most of it short term and attracting very high, floating interest rates. Two-thirds is held by domestic pension funds and thus tied to the local market. But that still leaves at least R$85bn vulnerable to capital flight – enough to overwhelm the government's remaining $42bn of hard currency reserves plus the IMF money.

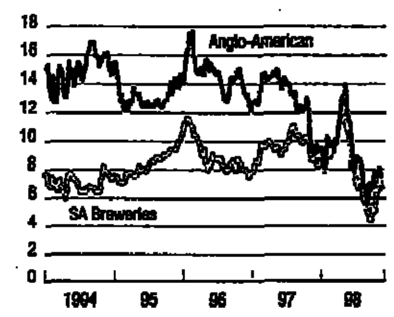
Investors' confidence, in turn, depends on the speed and effectiveness with which the government enacts its fiscal austerity package. If that goes smoothly, interest rates can fall from their current 40 per cent, reducing the crippling budget deficit and keeping the economic fall-out to a minimum. But any political slippage over the next few months could have catastrophic consequences.

Oil

It may not have come to war (yet), but it is magnificent for the oil price. To judge from last week's fitful rally in the price of Brent crude, deteriorating relations with Iraq could be just what is needed to lift oil from the $13 dollar per barrel doldrums. Remember what happened in 1991/2, after all, when oil rose to $40 per barrel after disruption to Iraqi and Kuwaiti production and exports. After a year of falling prices, followed by a deceptive short-lived rally in September, no oil trader wants to be caught the wrong side of a sudden rally. Yet, unless events in Iraq turn very nasty indeed, it is hard to see much upside for the oil price. Any military strikes that are eventually launched are likely to be focused on a small number of military targets rather than centres of Iraqi oil production. And so far the United Nations' "oil for food" programme does not seem in danger, so there is little prospect of a reduction in global oil supply.

Furthermore, global oil stocks remain high, representing 58 stock days against 56 a year ago. So far, the high degree of compliance with Organisation of Petroleum Exporting Countries-agreed production cuts has had precious little impact on stock levels, because of falling global demand. But a hard winter and soft economic landing in the US and UK should make inroads into stock levels and put upward pressure on prices. However, without a recovery in emerging-market demand, it is hard to envisage oil selling for more than $16 per barrel in 1999.

South Africa
Market capitalisation ($bn)



Source: Datastream/ICV

South Africa

Corporate South Africa, it seems, is intent on relocating. Billiton led the way, Anglo American is following, South African Breweries and Old Mutual lurk in the wings, and Sappi has achieved a New York listing. A more blue chip collection South Africa could not offer.

For London this is great news. There is the kudos of attracting some significant companies, not to mention the increase in shares traded and juicy raft of advisers' fees.

But for South Africa, a rush of top companies offshore hardly sends the right sort of message. Why are Brazil or Australia's finest not doing the same? Politics? Undeniably, this is the great unspoken factor South Africa's companies will not mention. But even if it is a factor, it is not the most important.

Apartheid warped South African business as much as it scarred its politics. Neither is quickly repaired, and the path to normality is not a smooth continuum. Wrenching measures are required, whether in the imperfect process of black economic empowerment or the equally jarring relocation effect as South African companies play globalisation catch-up.

Companies such as Anglo American and South African Breweries have outgrown South Africa. If they are to grow, it must be outside South Africa. So long as exchange controls remain in place, that effectively requires relocation. There is also the question of an improved rating. Being listed abroad clearly broadens the investor base that can hold your stock. But will this bring a rerating? Not necessarily. The risk profile of the assets remains the same, as does the management.

Indeed, relocating could backfire; greater analyst and investor attention can work both ways. And while South Africa has a fairly sophisticated investment community, the leap to London is a big one. Ask Billiton, a good company with good prospects, which has suffered a baptism by fire. Companies without a strong case for relocating should not bother with the effort.

Provided those that do relocate can adapt, shareholders should benefit from being forced to operate more efficiently. The big loser will be the Johannesburg Stock Exchange, which will see liquidity drain away to London in some of its largest companies.

South Africa itself will need to plug some of the gaps with foreign investment. Certainly there will be a lot more assets up for grabs. If foreigners still choose to stay away, the outlook will be gloomy indeed. But the relocation process itself is no reason for gloom. It is a sign of normality.

Europe outpaced by US on competition, says report

By Emma Tucker in Brussels

Europe lags behind the US on virtually all measures of competitiveness, according to a report that will make grim reading for EU industry ministers meeting in Brussels today.

The report highlights the European Union's inability to create new jobs as quickly as the US and Japan, its poor response to innovation, a lack of risk capital and the high cost of labour.

It was written for the European Commission by a consortium of consultants from six EU countries, and will be presented to ministers as part of a general discussion on EU competitiveness.

The report concludes that the standard of living in the EU, measured as gross domestic product per capita, is 38 per cent lower than in the US and 13 per cent lower than in Japan.

One of the main reasons for this is the EU's failure to create new jobs by moving swiftly into promising new sectors. "Where the US has created jobs in technically advanced industries and transformed itself into a service economy, Europe is lagging behind," the report says.

The report forms part of the continuing debate in Europe about how to cut record unemployment, and will strengthen the hand of those arguing for greater flexibility in labour markets and less regulation.

"In spite of the single market programme and its effects on competition and liberalisation, Europe still has more restrictions and distortions of competition in service industries than the US," it says.

A similar report two years ago provoked a row inside the Commission between its non-interventionist camp, which argued that over-protected labour markets cost Europe jobs, and the opposite camp defending Europe's social model.

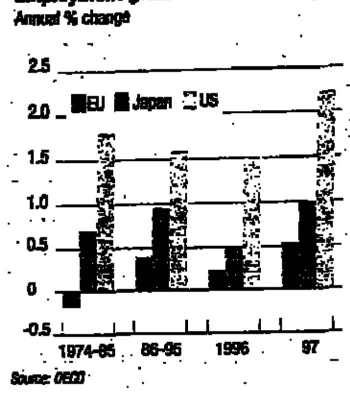
Europe's poor employment performance is weaker not just in new high-tech industries, but across the board, say the report's authors. "This suggests that Europe's problems lie in the general business environment rather than in the weak performance of individual branches of the economy."

A lack of adequate risk capital, essential for high growth, in technology-oriented companies adds to Europe's employment problems. The report argues that the competitive position of such companies in the EU is undermined by inefficiently-priced financial services and restricted access to capital markets.

It concludes by saying EU governments should:

- eliminate institutional and regulatory barriers;
- ensure continuous upgrading of European industry;
- move away from targeting individual industries with subsidies or strategic trade arrangements;
- diffuse best practice – the report uncovered huge disparities in labour productivity in the EU.

Employment growth
Annual % change



Source: OECD

EU subsidies, Page 4
Observer, Page 17

Attempts at Apec deal collapse as Japan resists tariff cut calls

By Peter Montagnon and Sheila McNulty in Kuala Lumpur

Attempts to forge a trade liberalisation deal dissolved in acrimony at the 21-member Asia-Pacific summit as Japan and the US exchanged angry accusations.

The trade ministers yesterday decided instead to send the package of proposals to the World Trade Organisation for negotiation.

Dogged by political tensions and enfeebled by US President Bill Clinton's last-minute decision to stay away, the Asia Pacific Economic Co-operation (Apec) forum's trade talks in Kuala Lumpur were widely regarded as a disappointment.

After Japan continued to resist pressure from the US and other industrial countries to cut tariffs on forestry and fisheries as part of a voluntary trade liberalisation package in nine export sectors, ministers agreed to transfer the package to the WTO.

The decision was taken after what Sergio Marchi, Canadian trade minister, described as "very difficult discussions". The tariffs deal was intended to be the centrepiece of this year's annual meeting of 20 Asia-Pacific countries plus Hong Kong.

There are fears that US-Japanese relations may deteriorate as a result of the exchanges, which were marked by angry outbursts from Charlene Barshefsky, US trade representative.

In an unusual departure from normal diplomatic language, a Japanese official openly described US accusations that Japan was conducting cheque-book diplomacy as "evil" and "defamation".

The US case was weakened by Mr Clinton's decision to stay at home to deal with the crisis in the Gulf.

"I think it's a disappointing conclusion, and I'm not going to put any gloss on it," said Mr Marchi.

Ms Barshefsky sought to put a brave face on the outcome, saying that the liberalisation programme would have had to pass through the WTO anyway. A pattern had been established that should allow global liberalisation to proceed along the lines already established by Apec with its earlier deal on information technology. "This is a very significant outcome," she said.

"We are pleased that the principle of voluntarism is respected," said Mikie Kiyoi of the Japanese foreign ministry.

Other Asian participants said the decision was a realistic compromise. "Apec still has momentum," said Surin Pitsuwan, Thailand's foreign minister.

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Marines look on as a Jakarta news vendor brandishes headlines on the popular demand for the military's chief commander to quit. Page 5 AP

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Directory of online services via FT Electronic Publishing

FT.com: the Financial Times web site; online news, comment and analysis.
http://www.FT.com

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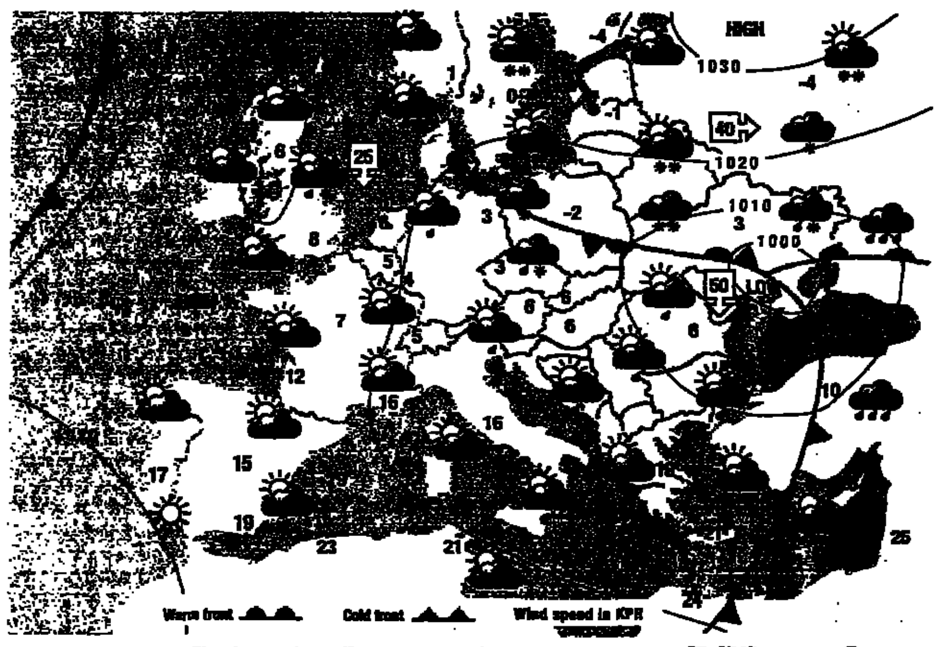
Cityline: how to get share prices and market reports by telephone and faxback.
http://www.ft.com/newspaper/2176.htm

Surveys: details of forthcoming editorial surveys.
http://www.ft.com/newspaper/2366.htm

FT WEATHER GUIDE

Europe today
Scandinavia will be cold with a mixture of sunshine and showers, the showers prolonged in the south. Further north the showers will be well scattered and will fall as snow. Russia will have snow flurries but there will be significant fresh falls of snow in eastern Europe. France will start cold and frosty in northern and central parts but there will be some decent sunny spells everywhere. Showers will break out in many parts of the Mediterranean and Balkans, and these will be heavy and prolonged in the east.

Five-day forecast
The cold snap will continue in north-west Europe but high pressure means that most parts will be dry. Central and eastern Europe will remain cold and showery with snow in many parts. The Mediterranean will have further showers, the heaviest in central and eastern parts.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	30
Accra	Sun	32
Algiers	Fair	23
Amsterdam	Shower	8
Athens	Fair	19
Atlanta	Fair	20
B. Aires	Rain	22
B.ham	Sun	6
Bangkok	Shower	32
Barcelona	Fair	15
Beijing	Fair	8
Belfast	Fair	6
Belgrade	Hail	9
Berlin	Rain	3
Bermuda	Fair	26
Bogota	Cloudy	18
Bombay	Sun	33
Brussels	Fair	5
Budapest	Shower	6
C.hagen	Sleet	3
Cairo	Sun	26
Caracas	Fair	31
Cardiff	Sun	8
Casablanca	Sun	23
Chicago	Fair	12
Cologne	Shower	6
Dakar	Fair	32
Dallas	Fair	22
Delhi	Fair	29
Dubai	Sun	30
Dublin	Fair	7
Dubrovnik	Fair	15
Edinburgh	Fair	7
Faro	Sun	20
Frankfurt	Shower	6
Geneva	Fair	5
Gibraltar	Sun	20
Glasgow	Sun	6
Hamburg	Cloudy	4
Helsinki	Fair	-4
Hong Kong	Fair	26
Honolulu	Sun	28
Istanbul	Shower	17
Jakarta	Fair	32
Jersey	Fair	10
Johannesburg	Fair	28
Karachi	Sun	30
Kuwait	Sun	32
L. Angeles	Sun	20
Las Palmas	Sun	26
Lima	Cloudy	22
Lisbon	Sun	17
London	Fair	6
Lux.bourg	Fair	4
Lyon	Shower	7
Madeira	Shower	23
Madrid	Fair	15
Majorca	Fair	18
Malta	Fair	20
Manchester	Fair	6
Manila	Thunder	30
Melbourne	Sun	19
Mexico City	Fair	23
Miami	Thunder	29
Milan	Fair	15
Montreal	Sleet	4
Moscow	Snow	-4
Munich	Sleet	4
Nairobi	Fair	27
Naples	Fair	16
Nassau	Fair	30
New York	Fair	13
Nice	Fair	16
Nicosia	Shower	23
Oslo	Fair	1
Paris	Fair	7
Perth	Sun	28
Prague	Shower	5
Rangoon	Fair	33
Reykjavik	Sleet	4
Rio	Fair	27
Rome	Fair	16
S. Frsco	Fair	18
Seoul	Rain	14
Singapore	Thunder	30
Stockholm	Snow	0
Strasbourg	Rain	6
Sydney	Shower	21
Tangier	Fair	22
Tel Aviv	Thunder	23
Tokyo	Rain	18
Toronto	Shower	9
Vancouver	Rain	9
Venice	Sun	11
Vienna	Rain	6
Warsaw	Snow	-2
Washington	Fair	15
Wellington	Fair	18
Winnipeg	Snow	-3
Zurich	Fair	6

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FINANCIAL TIMES

COMPANIES & MARKETS

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INSIDE

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KOREAN INSPECTION BID
Charles Kartman, US special envoy for Korean affairs, visits Seoul today before flying to Pyongyang to discuss inspecting North Korea's suspected underground nuclear facility.

FLYING PARTICLES
The Earth is expected to enter the largest meteor storm for 33 years tomorrow, which may have a dramatic effect on the 500 or so telecoms satellites in orbit.

NEW SPEAKER SOUGHT
The US House of Representatives is due to elect a new speaker on Wednesday, following Newt Gingrich's resignation.

ALGERIA TASK FORCE
IMF and World Bank officials visit Algeria on Saturday to discuss its financial woes.

COMPANIES IN THIS ISSUE

MARKET STATISTICS

Oracle set to go against Windows

Ellison to announce plans for new type of computer

By Roger Taylor in Las Vegas

Oracle and Microsoft, the world's largest software companies, are set to lock horns today at the opening of Comdex, the technology industry's biggest trade fair.

Larry Ellison, chief executive of Oracle, will announce plans to build a new type of computer that will run Oracle's popular database software without the need for a complicated operating system.

The move is a direct assault on Microsoft, which produces the Windows operating system used on most personal computers and a growing number of larger corporate machines.

Mr Ellison said he had discussed the idea with leading manufacturers including Dell, Hewlett-Packard, Compaq and Sun Microsystems. Formal agreements had not been signed but he was confident manufacturers would be producing the Oracle appliances by early next year.

The willingness of companies such as Compaq and Dell to support Oracle will be a test of their readiness to endure Microsoft's disapproval. One of the allegations made against Microsoft during the US Department of Justice's anti-trust suit is that it put pressure on computer makers not to build machines with competing software pre-installed.

Mr Ellison will outline his plans at a speech tonight in Las Vegas, just as Microsoft holds a party on the other side of town to launch its new SQL7 database software, designed to compete with Oracle's most important product.

Microsoft also plans to use the conference to highlight some of its newest technologies. In his opening address last night, Bill Gates, its chief executive and founder, was expected to demonstrate ClearType – a system for improving the readability of computer screens which the company hopes could increase the popularity of electronic books.

A little over two years ago Oracle launched the network computer which, Mr Ellison said, would replace the desktop PC by getting rid of the Windows operating system. They would work by using the internet or corporate networks to access central computers, called servers.

His view that the internet would become the focus of computer systems is proving accurate. However, network computers have failed to make a significant impact on PC sales. The latest initiative is an attempt to persuade companies that they do not need Windows on the servers that run their central databases.

AltaVista portal, Page 20

Alstom chairman Pierre Bilger: opportunities in rapid transit systems

Alstom plans purchases to help double US sales

By Peter Marsh

Alstom, one of the world's biggest electrical engineering suppliers, aims to double its sales in the US in the next five years, mainly through acquisitions.

The Paris-based group, formerly a joint venture between the UK's General Electric Company and Alcatel of France, went public in June with listings in Paris, London and New York.

Tomorrow it will announce its first results since flotation, for the half year to September 30. In 1997-98, when it was known as GEC-Alsthom, it reported full-year operating income of Ecu 521m ($607m) on sales of Ecu 11.1bn.

It expects to boost its annual revenues of Ecu 980m from the US – equivalent to 7 per cent of total sales – largely by building up its activities in railway systems, transmission and distribution equipment, and power generation.

Pierre Bilger, Alstom's chairman and chief executive, declined to divulge how much it was willing to spend on US acquisitions but said he wanted the group's US employees to expand from 3,000 to between 10,000 and 15,000 by 2003.

The company is also relatively relaxed about prospects in Asia, where the economic turmoil and consequent reduction in infrastructure investment have dampened investor sentiment in Alstom, as well as other big electrical engineering groups such as Siemens of Germany and the Swiss-Swedish ABB.

In the US, Alstom is particularly keen to expand in rail transport, a field in which it is the world's second biggest supplier after Adtranz, a joint venture between ABB and Germany's Daimler-Benz. "A few years ago the US was not seen as the best place for trains, but the situation is changing quickly," said Mr Bilger.

He expects to benefit from the greater interest several US municipal authorities are showing in rapid transit systems, for which Alstom can supply a package of equipment and services including trains, rolling stock and signalling.

Alstom has been considering as acquisition candidates small to medium-sized US makers of transmission and distribution equipment, a field in which the US has relatively few large international suppliers.

Mr Bilger, whose company has 59 per cent of its sales in Europe, said cuts in spending in east Asia would inevitably lead to lower orders in the short term. The proportion of sales from Asia reached 19 per cent last year but is expected to decline substantially this year and next.

Morgan Stanley arm to launch euro index

By Edward Luce and Vincent Boland

Morgan Stanley Capital International, the global index provider, today launches a bond index for Europe's future single currency.

It joins a growing number of big US investment banks hoping to establish the benchmark index for bond investment in the euro.

Salomon Smith Barney, which provides the leading global bond index, has also recently launched a euro-denominated index. Other competitors are J.P. Morgan, Lehman Brothers and Merrill Lynch. Barclays Capital is the only European bank to offer an index for the future euro-denominated bond market.

Bankers say Europe's traditionally conservative investor base is gradually attuning itself to tracking broad benchmark indices in bond markets. The idea is more firmly rooted in equity markets.

"The big fund managers have increasingly to justify their performance to investors," said Peter Harlow, director of fixed income at Barclays Capital. "Tracking an index is an obvious way of doing so."

The big banks hope to mirror US markets where investors closely follow bond indices, including benchmarks for high-yield bonds and for the mainstream investment grade market.

MSCI hopes its euro credit index will generate business in over-the-counter derivatives.

Investors often enter into total return swaps on indices. They pay a floating rate of interest plus a spread to cover administration fees in exchange for receiving the equivalent return generated from an index over a given period. This saves investors directly investing in bonds covered by the index.

However, some investors say investment banks have overstated the growth potential of the bond market in euros. Although with an estimated capitalisation of E3,000bn ($3,500bn) Europe's bond market is almost as large as the US market, it is considerably less liquid.

Unlike the US market, which has a strong corporate presence, the European market will be heavily skewed towards government bonds. Some banks, such as Barclays, have confined their indices to these.

There is also intense competition to provide the benchmark equity market index. Surveys of fund managers and pension funds suggest MSCI is the most widely-used pan-European benchmark provider, but indices provided by Dow Jones and FTSE International, partly owned by the Financial Times, are also gaining ground

Eurozone, Page 27

Brazil's national oil group seeks extra $300m

By John Barham in São Paulo

Petrobrás, Brazil's state-owned oil company, is to begin raising an extra $300m from an enlarged Eurocommercial paper programme in one of the first signs that international markets are re-opening to the country.

Access to international financing for Brazilian borrowers should further improve after the government agreed on Friday a $41bn financing package with the International Monetary Fund and other international lenders to support the country's external accounts.

Brazil had been shut out of markets in August amid fears it would be forced to devalue its currency after Russia's debt default and devaluation. Many Brazilian banks and corporations were forced to pay down external debt as foreign creditors refused to renew credit lines as they matured.

But Petrobrás, one of Brazil's largest and most sophisticated public sector borrowers, has now decided to increase its CP programme from $600m to $900m because of strong investor demand.

Cindy Powell, managing director at Chase Securities, which arranged the programme, said: "Petrobrás has always managed its programme well, keeping spreads tight, and has built up a large following among investors." However, the turbulence in international markets has driven yields on its short-term paper above the returns on longer-dated securities.

A fixed income trader in New York said: "Short-term debt [issues] are always the first to come back [after a crisis] and you are definitely seeing that now."

Petrobrás first began issuing Eurocommercial paper, the money market equivalent of Eurobonds, in 1991 with a $200m programme, and has steadily increased issuance over the years. The company issued about $500m of the $600m available to it under the previous programme.

Petrobrás, the largest issuer of Eurocommercial paper both in Brazil and Latin America, is expected to use the securities to help finance its oil imports.

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Lex, Page 18

PHILIP COGGAN
GLOBAL INVESTOR

Asian headache not over

Most of us have been through it. The party where the wine is flowing and caution is abandoned; the dreadful hangover in the morning and the vow never to over-indulge again. But only a few weeks later, it is Friday night and your friends are urging you to have just one more . . .

Asian markets represent the potentially lethal beverage of the moment. For years they represented many investors' exotic tipple of choice, thanks to a combination of rapid growth, low inflation, stable politics and financial reform. Instead of headaches, they brought a refreshing pick-me-up to portfolios.

The pristine reputation of the region ensured that the disillusionment that followed the Thai baht devaluation in 1997, and the subsequent financial turmoil in Asia, was all the greater. It seemed as if many investors might never touch the region again.

But just look at the figures. The Indonesian market was up 64 per cent in dollar terms in October this year, Bangkok 60 per cent, Manila 48 per cent, Singapore 40 per cent and Hong Kong 32 per cent. While those rebounds reclaimed only a fraction of the previous losses they are even so the sort of gains investors normally cannot afford to ignore.

But analysts remain sceptical, arguing that it has been a trading rally rather than a genuine case of long-term money piling into to the market. After all, investors were caught out in the first quarter of the year. Back then, south-east Asian markets jumped more than 80 per cent as investors assumed that, with International Monetary Fund rescue packages in place, the economies would enjoy the kind of V-shaped recovery seen in Mexico in the mid-1990s.

But the picture looks much bleaker this time. After severe recessions in most countries this year, the mean forecast for Hong Kong and Indonesia, according to Consensus Economics, is for a 2.8 per cent drop in gross domestic product next year; for Malaysia, a 0.5 per cent decline; and for Thailand, 0.5 per cent. Singapore and South Korea are expected to show marginal rises. These figures would be bad enough for a developed economy, used to 2-2.5 per cent trend growth; they will be even harder to take in south-east Asia, where 6-8 per cent annual growth was the recent norm.

And the slowdown in the developed world makes the task of Asian economies even harder. Everyone is rooting for an export-led recovery, but export to whom? Not Japan, which continues in the doldrums, and not Europe, where growth forecasts for 1999 are being rapidly scaled back. An even bigger issue is the scale of the financial restructuring needed across the region, of which the six-month debt moratorium announced by Thai Oil was only a foretaste. According to ING Barings, the Thai corporate sector has a debt-to-equity ratio of 168 per cent and Korea 185 per cent. It estimates that 217 out of its universe of Asian corporations have serious solvency problems and that the majority of Asian banks have negative book values.

Where is the capital to come from to fill these holes? Spreads on emerging market bonds have come down a bit from the panic levels recorded earlier, but so far there has been virtually no issuance from Asian corporates or banks. Equity investors are far more eager to liquidate existing positions than to snap up new issues, and the region has so far shown a reluctance to sell businesses outright to foreign corporates.

Throw in the failure of Asia so far to deal with one of its other problems – industrial overcapacity – and one can appreciate that it will be a long time before the region's recuperation will be complete.

At least the risk of a hangover may be getting smaller with each lurch of the cycle. As ING Barings points out, valuations are more moderate this time round. Only China and Malaysia have historic price-earnings ratios above those prevailing in the first quarter of 1998. In terms of price-to-book (or asset) ratios, only China is above its 1998 first-quarter high.

But valuation measures matter for little when confidence in the region (and in the quality of the earnings and assets on which the valuations are based) is shot to pieces. Most investors are likely to "just say no" this time.

INTERNET FINANCIAL CONGLOMERATE LAUNCHES CROSS-SELLING VENTURE

Citigroup targets web-site sales

By John Authers in New York

Citigroup, the financial conglomerate formed by last month's merger of Citicorp with Travelers Group, is developing plans to cross-sell its different products online, using a marketing model borrowed from computer and software companies.

Ed Horowitz, head of the e-Citi support group, which is aimed at developing online strategy across the company, drew an analogy with sales of computers or web-sites, which often use one brand to support another.

"The aspiration is that if it says 'Inside Citi', it's going to work," he said. "If I say I have a financial investment product brought to you by Citi, powered by Salomon Smith Barney, you get both brands in front of the customer, and we will position those brands according to what the customer needs.

"In the cyber-world, the concept is common. It provides a level of assurance. If it says 'Citi Inside' you are assured that what's being presented to you on the product side is what it's cracked up to be."

Apart from Salomon Smith Barney, an investment bank with a large fund management business, other well-known brands within the new company include Travelers insurance, Diners Club credit cards, and Primerica life insurance.

Citigroup's plans for increasing revenues in its consumer businesses – which made up the bulk of both predecessor companies

'We want to be within one click, one phone call and one mile of any customer in the world'

– have come under closer scrutiny since the announcement of a reshuffle at the top of its corporate and investment banks two weeks ago. This left many analysts believing that its best chances for raising sales in the short term lay on the consumer side.

Mr Horowitz was recruited to the former Citicorp from Viacom, the media group, by John Reed, now the joint chief executive of Citigroup. He now reports to Mr Reed, and to Sandy Weill, joint chief executive and former head of Travelers.

"The theory of the unit being set up as a support unit is that it will go across the corporation," he added. "As it relates to things like the internet and electronic commerce there are products and services that can be developed for the consumer world that have direct application for the corporate world, and vice versa."

The unit is intended both to help direct online sales, and to support conventional sales representatives.

By emphasising the common distribution channel as a brand in itself online, the company also hopes to benefit from the strong recognition it has built up through conventional channels.

Mr Horowitz said: "Consumers now have at their fingertips a variety of information from many different sources. I believe that they will gravitate towards the brands that they know and love.

"The brands that they have experienced in the physical world are the ones they will gravitate to first, as long as those brands fulfil the promise." He made clear that the company thought it could use the sheer size as an asset: "We want to be within one click, one phone call and one mile of any customer in the world. We want to be within one mile of physical presence. That's the aspiration."

John Reed: recruited e-Citi's Horowitz

The company, he stressed, had deliberately decided not to have a large branch network in proportion to its size, and that a "physical presence" might include an ATM, or a small remote banking outlet in a supermarket.

DigiCash decline, page 13

Compaq to promote AltaVista portal

By Roger Taylor in San Francisco

The race to build the most popular sites on the internet took a twist yesterday when Compaq said it would "aggressively promote" the AltaVista search engine it acquired as part of its takeover of Digital Equipment, the computer maker, in January.

The move ends debate on the future of the portal site. The sites guide users around the internet and offer additional services such as messaging and news, and are thought to have the potential to command customer loyalty and advertising revenues on a scale comparable to newspapers and TV channels today.

Leading portals such as Yahoo!, Excite and America On Line remain independent. However, the media companies, NBC and Disney, have invested in second-line sites and are preparing to spend millions promoting them. Microsoft also has ambitions to build a leading portal site and last week unveiled a new updated version of MSN.com, its current offering.

Kurt Losert, acting general manager at AltaVista, yesterday introduced a number of new features to his site, such as a search facility allowing users to ask questions in natural language rather than having to know the correct computer terms. He said the upgrade was the first move in a plan to lift AltaVista from its current position as the tenth most popular portal and make it one of the top five sites on the internet.

Mr Losert acknowledged that Compaq, which has grown rapidly through its skill in manufacturing low-cost PCs, lacked the media skills necessary to provide much of the content for an internet portal but said this would be addressed through partnerships. He said Compaq would benefit by creating greater synergies between its PCs and its internet sites, adding that most home PCs today are bought for internet access.

Compaq has been a leader in making internet-friendly PCs, being the first computer company to add specific keys to PC keyboards that link to the internet. Compaq's Presario PCs have an instant internet access to Yahoo! and an internet search key linking to AltaVista. Although it is possible to change the presets on the keyboard, Mr Losert said that less than 10 per cent of users did so.

He said there was considerable scope for further adaptation of the PC via more task-specific buttons which would link directly to services on the internet.

Other PC manufacturers also have links with internet sites. For example, earlier this month Dell entered into an agreement with Excite under which buyers of its PCs will be directed towards the Excite internet site. However, Compaq is unusual among computer manufacturers in that it will own its own internet business.

PC with fast internet connection launched

Compaq, the largest manufacturer of personal computers, is attempting to push forward a step-change in the speed of internet computing, writes Roger Taylor.

The company will today announce a new range of personal computers which will sell for $1,599 (£960) and come equipped with a DSL modem. These modems allow computers to connect to the internet at 1.5 Megabits per second – about 300 times faster than the current standard 56k modems.

Increasing the speed of internet connections, by introducing "broadband" technologies capable of dramatically higher speeds, is seen as essential if the internet is to become as pervasive as the telephone. Currently, poor connection speeds make accessing the internet an often trying experience in which information can take a long time to download.

Broadband access would allow virtually instantaneous response, improve the quality of video and audio over the net. Industry observers say internet usage tends to double in homes with broadband access.

Compaq plans to support all three leading broadband access technologies – DSL, which works over normal telephone lines, cable TV connections, and satellite.

The company has entered into agreements with a number of telephone companies including Bell Atlantic, SBC Communications, Ameritech, GTE, Bell South and Sprint who will offer DSL connections. It said it believed telephone operators would get the cost of a high-speed connection to below $50 a month before the end of next year.

It also has agreements with two cable operators @Home Network and Road Runner as well as DirecPC, the satellite business.

The new PCs will come with software pre-installed to help users identify and connect with local broadband services as they become available.

The move to DSL technology has been made possible by the agreement last month of the G.Lite standard for DSL connections, which provides access speeds lower than current commercial DSL connections.

Telephone companies have been reluctant to offer low-cost DSL connections to consumers for fear that it would undercut their lucrative market for offering high-cost DSL connections to corporate customers.

Compaq, which developed its low-cost DSL modems with Lucent Technologies, said it expected other suppliers to offer stand-alone low-cost DSL modems next year.

British Telecom considers property spin-off

By Norma Cohen, Property Correspondent

British Telecommunications is considering several options for the future of its £2bn ($3.3bn) property portfolio, including spinning off those assets into a separately managed property company.

The internal discussions are said to be at a very early stage and no financial advisers have been appointed. The move comes as new UK accounting standards, which require companies to disclose the value of surplus leaseholds as a footnote to their balance sheets, are about to take effect.

BT already has an extensive programme of property disposals and redevelopment projects and has an exercise under way which will allow it to use its premises more efficiently.

The company has roughly 8,000 surplus properties across Britain, including unused offices and telephone exchanges. The modernisation of switching facilities has left BT, like many telecoms companies, with surplus properties and the restructuring of services have significantly reduced the number of employees in recent years.

Telefónica, the recently privatised Spanish telecoms company, has said it intends to spin off its real estate assets to a separate company and Bell Canada has sold its property portfolio to TrizecHahn, a Toronto-based international real estate company specialising in offices.

BT has considered a demerger of its real estate assets previously. In 1993, it had retained the investment bank SG Warburg to review a possible demerger, but the plans were later shelved.

Possible alternatives include a sale of all or part of the property assets to a third party or listing a company on the London Stock Exchange.

Such a move would create the third or fourth largest listed property company in the UK.

Alternatively, BT could consider a structure which would allow it to not only sell its property assets but to rid itself of all property management responsibilities by contracting the management and upkeep to a third party for a fixed cost.

The UK's Department of Social Security sold its entire estate to a consortium, Trillium, under a similar arrangement last year.

COMMENT

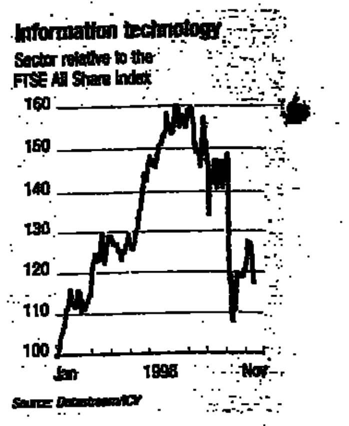
A bond but no bonding

When will Europe's businessmen learn? If they want to do blockbuster deals, they have to reckon with the might of Karel Van Miert, competition commissioner. British Airways, and now it seems Formula One, have proved miserable political operators in Brussels. Formula One may yet be the luckier of the two, but not by being the more savvy. Claiming that a commission investigation had left a "few minor issues" on the table smacks of arrogance. But Formula One needs only the market's approval, not Mr van Miert's, to get its $2bn Eurobond issue away.

What price investors will exact for taking on the risk of an angry commission is anyone's guess. It could be large, though, if investors fear that the cashflows that back the bonds could be affected by a commission ruling, such as insisting on much shorter television contracts. The bonds are also planned to be redeemed from the proceeds of an initial public offering, the prospects for which cannot have improved.

UK IT sector

The speculative juices are flowing across the Atlantic, as frothy internet initial public offerings return to favour. But in the UK, the mood is one of fretful watchfulness. The IT rally post its October plunge is fragile. This does not undermine the long-term bull case for the sector across Europe. Europe spends nearly half what the US does on IT as a percentage of gross domestic product, so the scope for catch-up is substantial. The severe falls in UK IT stocks owe more to concern over valuations than fears over industry growth.



Source: Datastream/ICV

Most companies are still seeing no evidence of a sharp downturn in sales. Of course, the fear is that their ability to forecast earnings is limited. And some software product companies have indeed been badly caught out by a dramatic slowing or deferral of orders. Service companies, however, such as CMG, Logica and Sema – which dominate the UK index – are cushioned by longer outsourcing contracts, which are less vulnerable to a sudden squeeze on budgets.

But the market's severe downgrading has been salutary in correcting an unsustainable anomaly: that of European service companies trading on chunky premiums to their US peers. Some scarcity value was warranted, but not premiums of up to 40 per cent. The UK IT party is over for the moment, but not the hangover.

Short list of Coral bidders

By Virginia Marsh

Ladbroke, the UK gaming and hotel group, is this week expected to inform prospective buyers of the Coral betting-shop chain which of them have been short-listed. Among those understood to have entered indicative offers for the 833-shop chain are the Tote, the pool betting operation, Stanley Leisure, the betting and casinos group, and several venture capital outfits. Ladbroke acquired Coral from Bass last New Year's Eve for £363m but the deal was blocked on monopoly grounds. Ladbroke – which has until March 23 to sell the business – is the UK's largest betting-shop operator.

It had hoped to avoid a monopoly referral by agreeing to sell 133 Coral shops immediately to the Tote – a deal that has now been cancelled. The government is believed to have cleared the Tote, which is state-owned, to make a bid for the entire chain. It is thought that bids are in the £300m-£400m range.

Masco bid for Heritage

Masco, a US-quoted home improvement and building products group with a market value of $9.7bn, has made a recommended £40.5m ($67m) takeover offer for Bristol-based Heritage Bathrooms. In addition to a 220p-a-share cash bid, Masco has made an alternative 220p loan note offer and two earnings-related loan note offers.

FORMULA ONE – BERNIE ECCLESTONE

Racing demon with all the cards

A Financial Times-Panorama investigation reveals how the men who run world motor sport missed out on millions. **Patrick Harverson** and **John Griffiths** report

Bernie Ecclestone, the diminutive 68-year-old millionaire who controls Formula One motor racing, has a simple motto: "You can buy anything in the world, as long as you're prepared to pay too much for it."

The theory has stood him in good stead over the decades as the former used-car dealer from Suffolk built a hugely profitable empire around his F1 interests, emerging as the dominant figure in the glamorous world of Grand Prix racing.

His willingness to take big financial risks, and his ability to extract maximum advantage from almost every deal he negotiates, have made him one of the richest and most powerful people in world sport.

However, Mr Ecclestone's business skills will be put to a serious test this week when his bankers begin marketing a $2bn Eurobond issue designed to secure the financial future of the Ecclestone family and pave the way for the eventual flotation of his Formula One Holdings company.

Persuading investors to buy the bonds in the middle of a European Commission inquiry into alleged restrictive practices in Formula One is also a big risk.

The Commission's competition authorities have made it clear they are far from satisfied with the complex financial arrangements between Mr Ecclestone and the Fédération Internationale de l'Automobile, motor sport's governing body.

Chief among the contracts being looked at by the Commission is the 15-year agreement – renewable for another 10 years until 2020 – between the FIA and Mr Ecclestone. This deal grants the F1 promoter the right to market the sport's highly lucrative television and commercial rights worldwide.

A joint investigation of the contract by the Financial Times and Panorama, the BBC documentary programme, offers an intriguing insight into how the business of F1 works.

It is a story of how the blue-blazered, elderly administrators of the FIA attempted to keep up with a razor-sharp, risk-taking entrepreneur, but produced what many believe amounts to an extraordinarily lop-sided deal that cost the sport's governing body millions of dollars. It also made a fortune for a former marketing director for the Marlboro cigarette brand and Ecclestone associate.

The story begins in 1987 with the signing of the second so-called Concorde Agreement, the contract that defines commercial and sporting relations between the FIA, the racing teams and Mr Ecclestone.

Under the 1987 agreement, it was agreed for the first time that the FIA would receive 30 per cent of F1's television revenues in return for leasing the sport's commercial rights to Mr Ecclestone for five years.

At the time, the money from TV was relatively modest, and the FIA's income from its 30 per cent share was less than $1m a year.

By 1990, the collapse of Canal 5, the television company that broadcast F1 in France, had made Jean-Marie Balestre, then president of the FIA, extremely nervous about the future of TV income and the value of the FIA's 30 per cent cut.

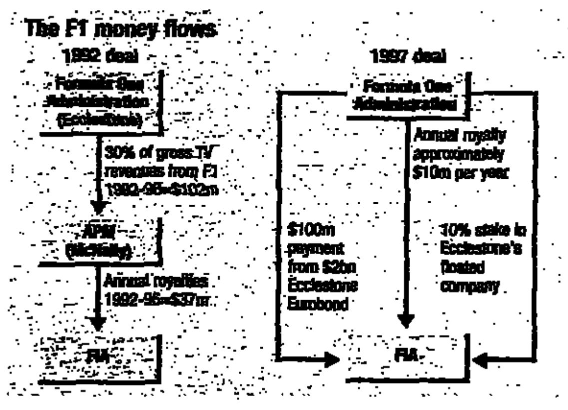
Mr Balestre switched tack. He plumped for an annual royalty for FIA, rather than a percentage of increasingly unpredictable revenue flows. But instead of negotiating a new deal with Mr Ecclestone, the man who brokered all of F1's TV contracts, he turned to Patrick McNally.

Mr Balestre – an aloof, mercurial figure – had little in common with the rough diamond Mr Ecclestone. He felt more comfortable with Mr McNally, a UK businessman and long-time associate of Mr Ecclestone who had left his job at Marlboro to run a business handling advertising hoardings and hospitality facilities at F1 circuits.

Under the deal, the FIA sold to Allsop Parker & Marsh, an Irish company controlled by Mr McNally, its 30 per cent share of TV revenues. In return, it would receive from APM an annual fixed royalty.

Based on figures provided by one of the F1 racing teams, the royalty payments are believed to have started at $5.6m in 1992, rising to just over $9m by 1996.

At the time Mr Balestre thought it was a good deal for the FIA: Mr McNally was the insurance policy against the risk that TV revenues would collapse. Yet the contract turned out to be anything but favourable for the sports governing body.



Instead of shrinking, F1's TV revenues soared as motor racing took off as a flashy and exciting sport that millions worldwide watched on television.

Between 1992 and 1996, TV revenues raised by Mr Ecclestone are said by an F1 team owner to have totalled $341m, with 30 per cent going to APM. The FIA is said to have received just $37m from APM, so APM made a profit of some $65m, according to figures provided by the F1 team.

Neither Mr Balestre – now in his 80s and still working for the French national automobile association – nor Mr McNally were available for comment on the deal.

However, Max Mosley, who ousted Mr Balestre as FIA president in 1993, admits the arrangement was hugely favourable to Mr McNally and that senior FIA officials were unhappy about it.

He also suspects the full membership of the FIA never knew about the huge sums of money Mr Balestre had negotiated away to APM. As Mr Mosley puts it: "He [McNally] certainly made a great deal of money from somewhere, because he's a lot richer now than he used to be."

Asked why Mr Balestre passed up the opportunity to earn 30 per cent of the TV revenues, Mr Mosley said Mr Balestre could not have known they were going to climb so sharply.

"He was always a great pessimist. He hated getting a percentage in dollars, and not a fixed sum in francs, and McNally was already giving him several times the biggest income he'd ever got," he said.

By 1995, Mr Mosley was keen to renegotiate a more favourable deal for when the old Concorde Agreement ended in 1996. This time he was not going to involve Mr McNally's company, but deal directly with Mr Ecclestone, with whom he would draw up a new contract, the F1 Agreement, on revenue distribution separate from the Concorde deal.

On the face of it, the deal Mr Mosley initially negotiated in 1995 with the F1 chief for 1997-2001 looked just as unfavourable as Mr Balestre's. This was because he, too, opted for an annual royalty rather than a percentage of the TV take.

Thus, in 1997 the FIA received a payment similar to the $9m it received in 1996. By contrast, a 30 per cent share would have earned about $67m in 1997 on gross television revenues estimated by industry experts of about $225m.

With TV income rising steadily, the FIA could have expected to receive another $250m or more over the remaining four years of the F1 Agreement up to 2001. Instead, the FIA stands to earn only another $40m from the annual royalty over the final four years of the deal.

So how does Mr Mosley defend his deal? The answer lies in Mr Ecclestone's plans to float his F1 business.

When the plans became public in 1997, bankers valued the company at about $3bn. Immediately, Mr Mosley spotted an opportunity to renegotiate the original revenue-sharing agreement with F1 and to secure the financial future of the FIA.

He thought he had done that by persuading Mr Ecclestone to grant the FIA a 10 per cent stake in the company.

When the flotation was delayed, Mr Ecclestone's bankers came up with the idea of a $2bn Eurobond issue. Mr Mosley moved quickly again, securing an agreement from the F1 supremo that $100m of the proceeds of his bond would go to the FIA, money that would eventually be repaid from the sale of the FIA's flotation stake.

Mr Mosley argues that the $100m, plus the expectation of a much larger windfall when the Ecclestone business eventually floats, is the essential reason he did not pursue the option of retaining the 30 per cent share.

Besides, Mr Mosley argues that the FIA was no longer in a position to demand 30 per cent of the huge TV revenues generated by F1.

Any demand by the FIA for such a large share would have been challenged, either by Mr Ecclestone or the racing teams. Asking for 30 per cent then would have been "fantasy land", Mr Mosley says.

There was another reason for the FIA treading softly. If it had pressed for 30 per cent, Mr Ecclestone's share of the revenues, after paying the normal 47 per cent to the racing teams, would have fallen to only 23 per cent.

That would not have provided enough money for Mr Ecclestone to cover the enormous costs of running and developing F1 – a global circus involving two jumbo jets carrying the teams, their 22 racing cars, and all the equipment around the world.

The clinching argument for Mr Mosley is the agreement with Mr Ecclestone that all rights to F1, from TV coverage to merchandising, will revert to the FIA in 2020 when the governing body's commercial agreement with his company ends.

The difficulty is that both Mr Ecclestone and Mr Mosley have been conducting their business with little regard to the competition authorities in Europe, which are taking an increasing interest in the previously closed but highly lucrative business of sport. At the latest count, the Commission is investigating more than 50 potential breaches of competition rules in sport.

In the case of Formula One, the Brussels authorities are concerned about the length of the agreements between the FIA and Mr Ecclestone; the validity of the FIA's claims to own the rights to F1 and all other motor sport championships; and the possible conflicts of interest arising from Mr Ecclestone's dual role as vice president of the FIA and the head of the company that negotiates commercial contracts with the FIA.

Unless Brussels approves the FIA-F1 deals, Mr Ecclestone's ambitious plans for selling his bond and floating his business may never move off the starting grid.

Additional reporting by Mark Killick

'You can buy anything in the world, as long as you're prepared to pay too much for it'

Commerzbank opens for business

German group's London launch is surrounded by doubts about over-capacity in the market

By Clay Harris, Banking Correspondent

Commerzbank Global Equities, one of a handful of investment banks whose expansion plans have been the talk of London all year, finally turns on its screens for business today.

Mehmet Dalman, chief executive, says the moment reminds him of his days as a schoolboy try-out for Crystal Palace, the London football club. After days of rigorous training, he says, his players are finally going to get the ball.

Aggressive recruitment, which has more than doubled the German bank's equities staff to 540, including nine top-rated analysts, has been met by scepticism in a market widely believed to be suffering from over-capacity.

That scepticism has only increased during recent market turbulence and a first wave of job cuts elsewhere.

Two other banks bracketed with Commerzbank as aggressively expanding in London have lagged behind. Donaldson, Lufkin & Jenrette, the US bank indirectly controlled by Axa of France, continues to "live test" its European operation, according to Hector Sants, global head of international equities.

DLJ would introduce its equities business progressively throughout December, with the goal of being fully open on January 4, the first trading day after the launch of the euro.

The schedule has slipped further into the new year at Dutch-owned Rabobank International, which lost two senior equities executives earlier this month.

Although Rabobank maintained its commitment was unchanged, it admitted it would "not be accelerating" its phased development. Rivals believe this could delay the full operation until as late as June.

In a final assessment before Commerzbank's London launch, to be followed in two weeks by opening New York, Mr Dalman argues that it is well-placed to prosper even now.

But like the bank's new building in London's Gracechurch Street – where internal walls and even the lifts are made of glass, and cameras are trained everywhere – he admits that if things go wrong, there will be "nowhere to hide".

Aggressive recruitment has more than doubled the German bank's equities staff

The business is building on Commerzbank's profitable Frankfurt-based equities operation which has now been redefined as pan-*European rather than* domestic German in focus.

The overall equities business has exceeded its budgets so far in 1998. It is on course at least to match last year's net income, even after taking account of the cost of hundreds of additional recruits who are not yet bringing in revenue.

Mr Dalman said Commerzbank also benefited by many steps it did not take in the past year.

It decided against putting an Asian expansion plan into effect, against buying a Russian brokerage and against continuing its joint venture with Wood & Co, the Prague-based central European equities specialist.

The German bank's management also kept its nerve and did not change its strategy or compromise on quality of staff when markets got choppy, he said.

Preparations suffered, however, because the equities business had relied on internal settlement *operations and risk control* models. It had also been too slow in getting rid of people who did not fit in with the bank's management approach.

Many other investment banks have product heads and regional managers. Commerzbank has added a third dimension of "discipline" heads, who are charged with ensuring that the bank's trading philosophy – always being market-neutral, for example – is always followed.

Some of these discipline heads, who do not bring in any revenue themselves, have product responsibilities in different areas.

The structure has sparked useful internal debates about trading philosophy, Mr Dalman said. But those familiar with the problems suffered by investment banks with more conventional matrix managements might begin to wonder whether the extra level of complexity might be regretted once business *begins.*

Thyssen warns of worse conditions

By Tony Barber in Frankfurt

Thyssen, the German industrial group merging with Krupp, has said market conditions have become harder for all its divisions in the past few weeks.

Its business prospects, like those of other German exporters, were being hit by expectations of lower growth around most of the world.

It said: "High orders in the car and machine-building industries are having a stabilising effect on production and employment ... but, even so, a slight weakening has been noticeable in all divisions in recent weeks."

It added that orders were still satisfactory at the start of the company's new business year.

Ruprecht Vondran, president of the German steel association, said last week steel-makers would remember 1998 as one of the most successful years of the past three decades, but conditions had taken a turn for the worse last summer.

As with other European exporters, the outlook for Thyssen's steel business, which accounts for one-third of group turnover, has darkened mainly because of the crises in south Asia, Russia and Latin America.

He told a steel conference in Düsseldorf that German exporters were experiencing more intense competition from suppliers in eastern Europe, Brazil and Japan.

Since the US had begum to limit access to its own market, sales competition was especially strong in the European Union, which was now the world's only big open steel market, he said.

Thyssen's shares rose more than 4 per cent to DM297.80 on Friday after the group reported a record profit from ordinary business activities of DM2.06bn ($1.22bn) in the year to September 30, against DM1.48bn in 1996-97.

Overall pre-tax profit fell from DM3.34bn to almost DM2.32bn, but the 1996-97 figure included extraordinary gains of DM1.86bn compared with only DM255m in 1997-98.

Thyssen shareholders are expected to approve the merger with Krupp at an extraordinary meeting in early December but some have complained that the terms favour owners of shares in Krupp, the driving force behind the merger.

Market turmoil dampens Aegon forecast

By Gordon Cramb in Amsterdam

Aegon, the Dutch insurer, has subtly revised its profit forecast for the year, saying it now expected an increase in net earnings "approximating" 25 per cent. That was the qualifier the company had used until August, when it stressed it was upgrading its projection to "at least" a rise of that rate.

The group, which made net profits in 1997 of Fl 2.31bn ($1.2bn), on Friday reported a 33 per cent boost at the nine-month stage to Fl 1.99bn.

It acknowledged that volatile equity markets, a drop in interest rates, and a depreciation in the dollar and sterling against the guilder were *all negative factors, but said* their effect on earnings for the year would be limited.

The results for January-September were a shade below the average of analysts' expectations. Shares in Aegon, which have strongly outperformed the Amsterdam market this year, slipped 3.4 per cent on the news before recovering to close just 50 cents lower at Fl 182.50.

For the third quarter alone, earnings were Fl 678m. That compares with Fl 594m in the same three months a year earlier, the first period to include a contribution from the insurance operations bought from Providian in the US.

Income from banking fell from Fl 60m to Fl 44m in the quarter, reflecting the sale of FGH Bank in Germany.

Aegon, which is also seeking to shed the Amsterdam-based Bank Labouchere, at the weekend announced a reshape of its deal agreed in June with AOT, a market maker. To overcome regulatory objections, specialist share trading activities are to be held separately. The insurer will initially retain some 57 per cent of the merged AOT Labouchere.

Aegon is seeking to focus on life assurance and pensions. Premium income at Fl 19.36bn was up 26 per cent. Investment income was 30 per cent higher at Fl 8.32bn. Aegon's accounting policy on booking gains in equities means the "effect of short-term market volatility on investment income is dampened", it noted.

Media group 'in move for Springer'

By Frederick Stüdemann in Berlin

Bertelsmann, Europe's biggest media group, is reported to be close to finalising the acquisition of a majority stake in Springer Verlag, a scientific publisher, as part of a move to establish a commanding position in the specialist publishing sector alongside more established companies such as Reed Elsevier and Wolters Kluwer.

According to Der Spiegel magazine, Bertelsmann intends to acquire 85 per cent of privately held Springer for about DM1bn ($592m).

Heidelberg-based Springer, which publishes scientific, technical and text educational books, is not related to Axel Springer Verlag, the newspaper and magazine publisher.

Bertelsmann said it did not want to make a comment on the report "at the present time".

Buying into Springer would roughly double the sales at Bertelsmann specialist publishing unit, which last year had a turnover of DM600m, and strengthen the group's plans to establish a joint-venture in this area with Havas of France.

A merger of the two companies' specialist publishing interests would produce an organisation with sales in the region of DM2.2bn, making it the world's third largest.

● **Deutsche Telekom**, the partially privatised German telecommunications company, has been given official clearance for a 15 per cent increase in monthly fees, announced last year, charged to users of its cable television network.

NEWS DIGEST

TELEVISION

Eastern European group suffers deepening losses

The financial crisis in Russia prompted multinational groups to cut back on advertising budgets, leading to deepening losses at Central European Media Enterprises, the troubled pioneer of privately owned commercial television in eastern Europe. Losses rose to $35m in the third quarter of 1998, from $18.8m a year earlier.

The company is facing serious financial problems in Poland and Hungary and warned that it could face write-offs of up to $80.7m on the value of its investments in Poland, if it were unable to resolve continuing conflicts with ITI, the Polish media group, over the running of TVN, their joint venture television network.

Ronald Lauder, one of the heirs to the Estée Lauder cosmetics fortune and controlling shareholder and non-executive chairman of CME, has been forced to provide additional equity capital to shore up the group's finances. He is to inject $22.7m into CME through RSL Capital, his wholly owned company. He is subscribing to new stock at $15 per share. In the past year CME shares have fallen from $30 to about $8.

CME is seeking to strengthen its finances further through a new $25m credit line and through the sale of its 9.6 per cent stake in Mobil Rom, one of two mobile phone operators in Romania. In Hungary CME is being forced to take heavy write-downs on programme rights, which it acquired last year, before it lost the tenders for two national broadcasting licences.

The write-down totalled $3.66m in the third quarter following a write-down of $10.96m in the second quarter. Further write-downs of $12.2m are expected including $4m in the fourth quarter and the balance in 1999 and 2000. The group suffered a net loss of $88.7m in the first nine months compared with a loss of $60.6m a year ago.
Kevin Done

TELECOMMUNICATIONS

Optus price boosted

Strong interest from overseas investors in the flotation tomorrow of Cable and Wireless Optus, Australia's second largest telecoms company, helped boost the final price to A$2.15 per share, Optus said. This was at the top of the indicative range set for institutional bidding and 16 per cent higher than the $1.85 a share paid by retail investors.

Optus, 52.8 per cent owned by Cable and Wireless of the UK, will list on the Australian Stock Exchange with a market capitalisation of A$8bn (US$5.1bn), putting it among Australia's 20 largest stocks. The relatively small size of the institutional book, with 375m shares, and the limited retail offer, was due to moves by C&W to subscribe for nearly half the shares being issued or sold, and the offer by Mayne Nickless, the Australian transport and healthcare group, of its 25 per cent Optus stake to its own shareholders at the $1.85 retail price.
Gwen Robinson, Sydney

Panafon sees strong demand

Greek retail investors are today expected to subscribe heavily to a public offering by Panafon, the first of Greece's three fast-growing mobile telephony operators to be listed. Roadshows in Europe and the US have triggered strong institutional demand and the price range for the offering was raised at the weekend to Dr4,700–Dr5,100 a share. The final price will be set on November 19 after book-building is completed.

France Telecom has offered up to 38.4m shares, equivalent to 15 per cent of Panafon's equity, to Greek and international investors. The offering values Panafon at Dr1,200bn–Dr1,300bn ($4.2bn-$4.6bn). The sale will reduce the French operator's holding to 20 per cent. Vodafone of the UK will retain control with 55 per cent and Intracom, the Greek telecoms equipment manufacturer, will keep its 10 per cent stake. Panafon has doubled its subscribers to 950,000 in the past year and claims a 56 per cent share of Greece's cellular market.
Kerin Hope, Athens

KDD under pressure

Growing competition in Japan's telecoms market put pressure on KDD, the country's third largest operator, in the first half, but DDI, a larger competitor in the domestic market, was able to buck the trend. KDD's revenues from operations were down 6 per cent from Y153bn to Y144bn ($1.2bn). Pre-tax profits before exceptionals fell 45 per cent from Y9.2bn to Y5.1bn, while net profits were down 52 per cent from Y4.5bn to Y2.1bn.

The former dominant international carrier blamed the downturn on liberalisation of the international leased line market and a lower accounting rate on traffic between the US and Japan. The accounting rate, which resulted in a drop in revenues of Y6.1bn, is the amount paid by one carrier to another carrier which brings in traffic from a foreign country.

On the positive side, KDD's domestic service, which started in July, is expected to help support revenues in the second half. At the end of August, the service registered 1m calls a day. Competition is expected to continue to bite, with KDD's full-year pre-tax profits before exceptionals forecast to fall from Y16.8bn to Y9bn, and net profits to drop from Y8.5bn to Y5bn, on revenues up from Y316.4bn to Y329bn.

DDI, an affiliate of Kyocera, the high-tech ceramics manufacturer, reported group first-half revenues of Y618.7bn, a 6 per cent rise. Pre-tax profits before exceptionals amounted to Y41.3bn, up 4 per cent, and net profits more than tripled from Y4bn to Y15.5bn, mainly as a result of lower taxes. The company said results were affected by a fall in prices, which are forecast to cut full-year revenues by Y38bn. **Michiyo Nakamoto, Tokyo**

TRUCK MANUFACTURING

Isuzu in deficit

Isuzu Motor, Japan's leading manufacturer of trucks, said the country's recession and the Asian crisis forced it into its first interim deficit for four years. Analysts said the weak yen had prevented even heavier losses. The group, 37.4 per cent owned by General Motors, the world's largest manufacturer of motor vehicles, moved from pre-tax profits of Y8.73bn to losses of Y5.24bn ($42.9m) on turnover down 18.5 per cent to Y467.97bn.

The heavy truck division, which relies heavily on manufacturing demand, suffered the largest decline, with domestic sales down 35 per cent to 22,850 units. This was slightly better than the industry as a whole: *truck sales in* Japan fell 38 per cent as manufacturers, facing collapsing demand and a deepening credit crunch, scaled back capital investment plans. Exports of light and heavy trucks, helped by the weak yen and brisk sales of its recreational vehicles, slipped 2.3 per cent to 114,669 units. Isuzu does not sell passenger cars overseas.

The group, which calculated its results at a yen-dollar rate of Y126, said gains from the yen's weakness against the dollar were Y6bn in the first half. Last year, forex gains were Y10bn. Losses after taxes and exceptionals were Y2.33bn, in line with the company's forecasts. It suspended its interim dividend.

Analysts said the group had fared better than expected because of its product mix. "Isuzu's fortunes were better simply because they were not purely dependent on the heavy truck market," said Stephen Usher, industry analyst at Jardine Fleming in Tokyo.

Isuzu expects after-tax profits of Y1bn this year, on turnover of Y970bn. **Alexandra Harney, Tokyo**

مكرر من الاصل

Froth returns to market as investor appetite recovers

The sharp rebound in the equities has provided a window of opportunity for IPOs write Vincent Boland and John Labate

Five successful debuts on Wall Street last week, topped off by Friday's stellar rise of internet company theglobe.com, marked a spectacular return from the brink for the initial public offering market after its early autumn shutdown.

Shares of theglobe.com closed at $63½ on its first day, a 606 per cent rise that was easily the biggest premium ever for an IPO.

Earlier in the week the third largest IPO ever, Fox Entertainment, also proved a hit with investors, but was less of a surprise to the market.

Large, brand-name offerings were less impacted by the IPO freeze-out of recent months. Internet stocks have been at the frothier end of the new issues market this year, and theglobe.com's performance suggested the froth has returned, with a vengeance, even for small, less well known companies.

Analysts in the US, however, are not generally expecting a sustained rebound in the IPO market to levels seen earlier this year. "We're not quite out of the woods yet," said Randall Roth, analyst at Renaissance Capital in Connecticut. "A lot of things could go wrong between now and the beginning of the year."

Although many more IPOs are now expected to come to market, the holiday season is traditionally a time of slowdown in the new issues market. Should the market continue to recover into December, a sharp and sustained ramp up in IPO offerings is not expected until January.

Another hurdle for the market is tomorrow's meeting of the Federal Open Market Committee. The recent comeback in stocks, especially in riskier small cap and IPO shares, owes much to recent rounds of interest rate cuts by the Fed. Expectations of another easing in rates still run high in the minds of many investors.

Should the Fed hold on interest rates on Tuesday, investors could swiftly sell some of their most expensive holdings, triggering another fall-off in internet shares.

Compared with its US counterpart, the European IPO market is much more sedate, but it has also rebounded well from the sharp slowdown seen in September and October, when the emerging markets crisis threatened to bring the 1990s bull market to a halt.

The flotations last week of Sonera of Finland and Poland's TPSA were proof that IPOs can be completed even in relatively difficult markets, and there is no doubt that conditions now are more difficult than they were earlier this year.

A lingering fear in the markets is the possibility that interest rates may not fall as much as investors expect

Investor interest was strong nonetheless – the international tranche of Sonera attracted demand for 30 times as many shares as were being offered.

Bankers said the sharp rebound in stock market levels in the past few weeks had provided a window of opportunity for IPOs that had been waiting on the shelf since share prices began to slip in early autumn. They attributed the rebound chiefly to the US Federal Reserve's decision to cut interest rates.

However, the rebound did not spread across the spectrum of IPOs in a European market still dominated by big new offerings in the telecommunications sector.

Issues that had the virtues of liquidity and size had a relatively smoother passage. "The market is back for good companies with good valuations that can offer liquidity," says Brad England of Merrill Lynch in London, which led the Sonera float.

A test of investor sentiment towards smaller companies comes this week with the start of a roadshow for Class Editori, a fast-growing Italian publishing group. It is offering up to $85m worth of shares in a transaction that could value it at $200m, and is one of the few Italian companies to seek a listing since the market downturn.

Bankers expect activity to drop off sharply again at the end of November, after when the timescale for launching an IPO is too short before the holiday period sets in.

A lingering fear in the markets, however, is the possibility that interest rates may not fall as much as investors expect between now and the end of the year, which could leave stock markets vulnerable to another downturn.

The focus now, however, is on two giant secondary offerings to be completed before the year end. France Telecom's FFr50bn ($8.8bn) issue – part shares, part convertible bond – is already in the market, and is to be followed by the fourth tranche of Nippon Telephone & Telegraph.

NTT's will be a giant issue for a company that has never managed to win over investors. But the solid success of the IPO for DoCoMo, the Japanese mobile operator, should provide some comfort. That was the biggest ever IPO, carried out in the teeth of the market downturn. NTT's issue, however, will test a lot of weary investors.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Ifi (Italy)	Exor (Luxembourg)	Holding company	$1.6bn	Group restructure
Svenska Handelsbanken (Sweden)	Fokus Bank (Norway)	Banking	$777m	Offer upped after . . .
Den Danske Bank (Denmark)	Fokus Bank (Norway)	Banking	$751m	. . . surprise bid
OTE (Greece)	Rom Telecom (Romania)	Telecoms	$675m	Initial 35%
Bergen Brunswick (US)	Stadlander Drug Co (Canada)	Pharmaceuticals	$400m	Counsel disposal
Usinor (France)	J&L Speciality Steel (US)	Steel	$115m	Terms improved
Senior Engineering (UK)	Jet Products (US)	Aerospace parts	$56m	Largest to date
Peptide Therapeutics (UK)	OraVax (US)	Biotechnology	$15m	Ride to rescue
SAirGroup (Switz)	LTU (Germany)	Travel	n/a	Two-stage deal
Colgate-Palmolive (US)	C-P Son Hai (Vietnam)	Consumer prdcts	n/a	JV partner buy-out

GLOBAL EQUITIES JURY STILL OUT ON SHARE STRUCTURE

DaimlerChrysler to start trading

By Tracy Corrigan in New York

When shares in the merged DaimlerChrysler start trading tomorrow, it will mark the latest attempt to create a global market in equities.

The "global ordinary share" structure of the shares is the first of its kind, offering seamless trading in a D-mark and US dollar-denominated instrument in Frankfurt and New York.

However, the jury is still out on whether a genuinely globally traded share is yet feasible. In spite of the rapid globalisation of markets in recent years, holdings of stocks remain concentrated in domestic markets.

Also, it is quite possible that even if the share is technically global, trading will flow to the home market if it offers greater liquidity.

"When the global ordinary share was designed, it was with the intent of having the first truly global share. In the US, it will be no different from IBM and Coca Cola," said Alan Sheriff, managing director of equity capital markets at Credit Suisse First Boston, which helped design the structure.

Last month, however, the plan met a setback, when Standard & Poor's, the US ratings agency, decided to exclude the merged Daimler-Chrysler group from its S&P 500 index, one of the main US stock market indices.

The result in the run-up to the delisting of Chrysler shares on Thursday evening has been substantial selling by US index-tracking funds, which aim to match their performance to that of the S&P index.

Analysts estimate that about 50m shares have been, or will be, sold by index-trackers as a result of that exclusion – some 5 per cent of the total. Many of the shares may find their way back to Germany, where DaimlerChrysler now accounts for a heavy weighting in the Dax index.

David Healy, auto analyst at Burnham Securities, points out that sellers include not only indexers but "closet indexers" – mainly mutual fund managers who are not technically index-trackers but keep an extremely close eye on the S&P's performance. However, Mr Healy believes "that pressure will disappear over the next few months".

Furthermore, US fund managers may be won back, because DaimlerChrysler shares represent a "statistical bargain". Mr Healy expects the DaimlerChrysler global shares to start trading at about $75 a share, some 10 times 1999 estimated earnings. This is higher than Chrysler's historic price/earnings ratio of 7 to 8 times, but well below Daimler's 20 times. As a result he believes that the shift of ownership away from the US as a result of the merger will be minimal, probably about 2 per cent.

The global share is not the only option for companies keen to encourage US ownership. The conventional route – an American depositary receipt or ADR listing – has worked reasonably well for European companies, such as Hoechst, the German life sciences group.

Hoechst listed its ADRs on the New York Stock Exchange in September 1997 and has seen the proportion of US shareholders rise from 6 per cent to 10 per cent.

However, the transaction costs for ADRs – higher than for the new global share structure – still discourage some investors.

"It will be up to the market to decide, but we have a hard time believing that you can build a global market if you have to change instrument" in order to trade through different time zones, says Georges Ugeux, group executive vice-president, international, of the New York Stock Exchange.

Next year, the NYSE will start trading shares in about 12 European companies in both ordinary and ADR form, and it will also be marketing the global share concept to other companies.

But there is no clear picture yet of how US investors will view DaimlerChrysler shares. Some plan to include them in domestic portfolios while others will buy the stock for international portfolios.

The issue, says Mr Ugeux, has reopened the serious question of how investors should play the equity markets, as big companies become increasingly global.

Icelandic bank IPO oversubscribed

By Tim Burt in Stockholm

The Icelandic government hailed the success of its privatisation programme at the weekend after an initial public offering in Icelandic Investment Bank, the state-owned commercial lender, was four times subscribed.

Share subscriptions were cut back sharply after more than 10,700 investors – some 4 per cent of the total population – took part in the country's largest privatisation, involving 49 per cent of Icelandic Investment Bank, known in Iceland as FBA.

The government said it had received share applications worth IKr18.9bn ($269m), against IKr4.7bn of shares on offer. Total turnover on the Icelandic stock exchange, by comparison, was IKr8.8bn in the first 10 months of this year.

Heavy demand among private investors forced maximum subscriptions to be scaled back from IKr4.2m shares to just IKr504,000. The success of the offering has persuaded the government to earmark its remaining holding in FBA for disposal early next year.

The privatisation follows a significant restructuring of the Icelandic financial services industry, dominated this year by the creation of FBA through the merger of four state credit funds: the Fisheries Investment Fund, Industrial Loan Fund, Industrial Development Fund and Export Credit Fund.

Most of the country's largest commercial banks have also been turned into limited liability institutions. The government, moreover, has reduced its controlling stake in Landsbanki, the national bank of Iceland, and 15 per cent of Bunadarbanki, the agricultural bank of Iceland, is due to be sold next month.

In all, some 16 state-owned institutions have been sold under the privatisation programme, raising IKr3.5bn.

Bjarni Armansson, chief executive of FBA, said investors had been encouraged by deregulation of the financial services industry and strong economic growth in Iceland.

"This restructuring is gathering pace and our bank will be fully privatised in the first half of 1999," he added.

Pre-tax profits at FBA, which specialises in financing industrial projects and venture capital, are forecast to reach IKr735m this year on net interest income of IKr1.17bn.

Those profits are expected to rise more than 25 per cent next year to IKr930m on projected interest income of IKr1.28bn.

The second tranche of FBA shares is expected to be targeted at international institutional investors.

If fully subscribed, the privatised investment bank would have a market value of IKr9.52bn and total assets of IKr64.8bn.

EMERGING MARKETS CONGRESSIONAL RESULT PUTS RECOVERY ON HOLD AHEAD OF PRESIDENTIAL VOTE

Equities falter on Chávez victory

By Raymond Colitt in Caracas

Any hopes that the recovery seen by Venezuela's stock exchange in the past two months could be sustained faltered last week when the country's establishment was rocked by the sweeping victory of populist former coup leader Hugo Chávez in congressional and gubernatorial elections.

The alliance backing Mr Chávez, whose authoritarian background and promise of radical political reform has sent investor confidence plunging, won nearly a third of congress, becoming the largest political force.

The showing has prompted fears that the leftist former paratrooper could become president of one of the most oil-rich countries.

The party of runner-up candidate and favourite among the business community, Henrique Salas, won only 11 per cent of congressional seats. Also, the traditional parties appear unlikely to withdraw their candidates in support of Mr Salas, despite their poor showing in the November 8 congressional elections.

With presidential elections now less than three weeks away, "the market is reacting entirely to political events now", said one broker based in Caracas, "and uncertainty reigns."

The IBC index fell 8.3 per cent to 3,614.2 last week and is now down some 70 per cent in dollar terms for the year to date.

One of the principal losers in the most recent setback has been blue chip Electricidad de Caracas, the most traded share on the exchange. It plummeted 17.7 per cent in four days.

"Electricidad is the purest political play," says Boris Molina, an analyst with Santander Investment in Caracas. "It has the most to win and the most to lose in this *upcoming election.*"

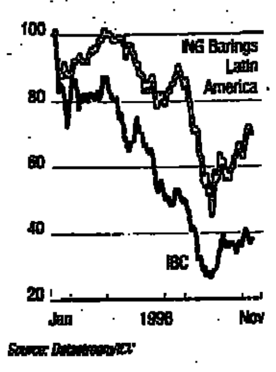
Indeed, the power sector is the most vulnerable to political change. Privatisation and tariff increases would be most likely put on hold under a Chávez government.

"We are worried he could implement price controls and other populist measures to meet the demands of his constituents," said Nancy Northrop, vice-president at Alliance Capital, a New York-based investment fund.

As a result, EdC could stage a dramatic comeback or remain in the doldrums, depending on the outcome of the elections, argues Santander's Mr Molina.

Venezuela

Indices rebased in $ terms



Source: Datastream/ICV

Most analysts believe the market has not hit bottom. *"It can still fall. There are* still foreign institutional investors that could liquidate their positions in coming days," says Herman Sifontes at brokers Econoinvest. As political uncertainty mounts, he argues, interest rates will rebound to prevent excessive capital flight.

Lending rates, though down from 77 per cent in early September when the bolivar came under speculative attack, are still some 17 percentage points above the expected year-end inflation rate of 35 per cent.

The high rates have paralysed private investment, stifled consumer demand and sent shock waves through some financial institutions that are beginning to see bad loans rise to critical levels.

Yet, a victory by Mr Salas on December 6 may not necessarily open the door to a prolonged rally like the one in 1996, when Venezuela recorded the world's highest return in dollar terms.

"I can see a couple of days of 20 per cent leaps in the index," says Santos Erminy, analyst at brokers Activalores in Caracas, "but in the long-term the scenario is quite difficult."

Barring a prolonged military crisis in the Middle East, oil prices are expected to remain depressed for some time. Oil makes up 70 per cent of Venezuela's foreign exchange earnings and as much as 50 per cent of government income.

With each dollar per barrel accounting for $900m in revenues, oil prices can make or break the country's public finances. Already, the government is heading into 1999 with an estimated budget deficit of 4.5 per cent of GDP, as congress failed to approve the government's tightened budget proposal.

Economic growth next year will be minimal. Real income has fallen, interest rates are high, and investments have been frozen.

Merrill Lynch, the US investment bank, said in a recent research report it expects 0.8 per cent GDP growth in 1999, after a negative 1.3 per cent this year.

With such an outlook, the bolivar, which is considered to be overvalued by some 40 per cent, may not withstand renewed pressure. "There are few economists that do not expect a devaluation in 1999," concludes Activalores' Mr Erminy.

Many shares are currently so heavily undervalued, say analysts, that their potential upside in the politically favourable scenario (a Salas victory), could easily outweigh even a 15 to 20 per cent devaluation. There are a number of companies that are under-performing considerably in comparison to their regional peers.

The problem says Mr Sifontes, is the low level of liquidity. "This is a market of three to four shares," he says. Few institutional investors will want to bet on anything but Electricidad or telecoms provider CANTV. Daily volumes last week fell below the Bs1bn ($1.7m) mark, an indication of the political chill blowing over the country.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, November 13, 1998. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7911.60	4750.00	3811.98	3886.26
Albania	(Lek)	234.517	140.800	83.3531	115.197
Algeria	(Dinar)	99.0400	59.4620	35.2013	48.6496
Andorra	(French Fr)	9.4363	5.6654	3.3539	4.6352
	(Sp Peseta)	239.330	143.690	85.0639	117.562
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gabon	(CFA Fr)	943.630	566.540	335.387	463.518
Gambia	(Dalasi)	17.2380	10.3500	6.1272	8.4680
Germany	(D-Mark)	2.8136	1.6892	1	1.3820
Ghana	(Cedi)	3889.18	2335.00	1382.31	1910.41

		£ STG	US $	D-MARK	YEN (X 100)
Gibraltar	(Gib £)	1	0.6004	0.3554	0.4912
Greece	(Drachma)	472.964	283.960	168.103	232.326
Greenland	(Danish Krone)	10.8696	6.4259	3.8029	5.2558
Grenada	(E Carib $)	4.4971	2.7000	1.5984	2.2090
Guadeloupe	(French Fr)	9.4363	5.6654	3.3539	4.6352
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	(Nor. Krone)	12.4972	7.5031	4.4418	6.1389
Oman	(Rial Omani)	0.6413	0.3850	0.2279	0.3150

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)	85.8336	51.5325	30.5070	42.1620
Panama	(Balboa)	1.6656	1	0.5920	0.8182
Papua New Guinea	(Kina)	3.5403	2.1255	1.2583	1.7390
Paraguay	(Guarani)	4680.34	2810.00	1663.51	2299.04
Peru	(New Sol)	5.1505	3.0923	1.8306	2.5306
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Zimbabwe	($)	62.0437	37.2500	22.0519	30.4788
ECU	(ECU)	1.4296	0.8583	0.5081	0.7023
SDR	(SDR)	1.19730	0.722600	0.428100	0.581100

Abbreviations: (a) Free rate; (m) Market rate; (o) Official rate; (r) Principal rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate (1) Iraqi market rate replaced by Principal Rate (2) Yemeni Official rate replaces Parallel rate (3) Ringgit exchange rate for valuation of capital assets. FT enquiries to Business Research Centre 0171 970 0100. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365. To obtain a copy of this table by Fax from the Cityline service dial 0891 437001. Calls are charged at 50p per minute at all times.
Friday, November 13, 1998

MARKETS WEEK

November 16 - November 22

NEW YORK

By Richard Waters

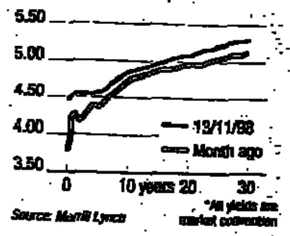
Will the Fed cut interest rates again tomorrow? Opinions on Wall Street seem evenly divided, though the pull-back in stocks and bonds last week left the markets less vulnerable should the Fed decide to leave rates unchanged.

The latest news on the domestic economy is probably not clear enough to offer a guide. Producer price figures, released on Friday, showed a 0.2 per cent increase last month but they are still 0.7 per cent lower over the past 12 months.

Consumer price figures, to be released tomorrow, are expected to show a similar increase, with a rise of only 0.1 per cent excluding food and energy. The American consumer still seems to be in a buying mood, though – as evidenced by October's surprisingly strong car sales.

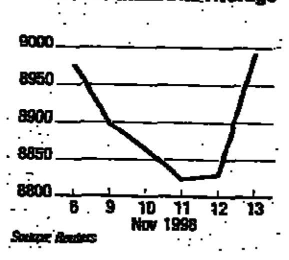
The condition of the financial markets is likely to play a bigger part in the Fed's decision. The bond markets have calmed and the stock market has rebounded, suggesting that there is far less need for action. However, with the ink still dry on an international rescue plan for Brazil, inaction on rates at this stage might risk another jolt to the emerging markets, reviving the threat of financial contagion.

Benchmark yield curve (%)*



Source: Merrill Lynch *All yields are market convention

Dow Jones Industrial Average



Source: Reuters

LONDON

By Philip Coggan

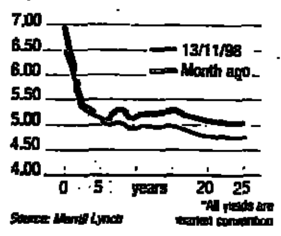
There have been gloomy statements about October from retailers, so the UK market is braced for another fall in the monthly sales numbers when the figures are released this week. Most of the FTSE 100 retail groups have seen their shares under-perform over the last month.

The slowdown should be another factor keeping the lid on inflation. Prices are expected to have dropped by 0.1 per cent in October, bringing the headline rate down to 3 per cent; the underlying rate is forecast to stay at the government target of 2.5 per cent.

Although the Bank of England's inflation report was released last week, some further clues as to its thinking should come from the release of the minutes of the Monetary Policy Committee meeting in November. The markets will be looking to see how many members backed the half percentage point rate cut.

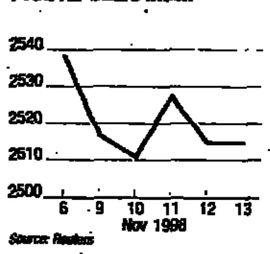
However, the focus for UK investors this week will not be the domestic economy. They will be looking for the outcome of tomorrow's Federal Reserve Open Market Committee meeting. Sentiment is divided over whether the Fed will make its third interest rate cut of the autumn.

Benchmark yield curve (%)*



Source: Merrill Lynch *All yields are market convention

FTSE All-Share index



Source: Reuters

FRANKFURT

By Tony Barber

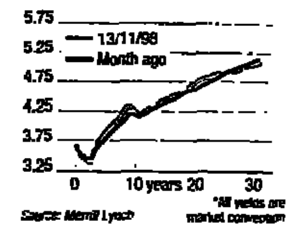
Investors in German stocks hope positive signals from abroad will count for more this week than the less rosy picture at home. Among factors supporting the market are a growing belief that Japan may finally be tackling its deep-rooted financial problems and confidence that Brazil will be able to avoid a currency devaluation.

In addition, some analysts say there is room for another US interest rate cut when the Federal Reserve's Open Market Committee meets tomorrow.

The recent strength of the dollar, which has recovered all its losses since the first US rate cut this year in late September, has helped share prices of export-dependent German companies. At home, the government's tax reforms continue to weigh on sentiment, because business will pick up most of the bill for the relief being offered to low-income earners.

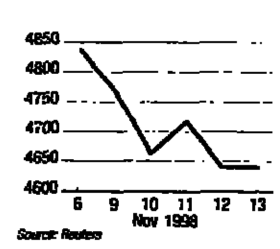
Corporate news will be dominated by nine-month results due tomorrow from life sciences group Hoechst. It has already warned that it will miss its profit target this year. Looking into December, many analysts think Frankfurt's Dax index could rise above 5,000 points again by Christmas.

Benchmark yield curve (%)*



Source: Merrill Lynch *All yields are market convention

Dax Index



Source: Reuters

TOKYO

By Gillian Tett

The government's plans for tax cuts are likely to be the main focus for the markets this week, as investors watch to see whether the ruling Liberal Democratic Party will offer any new measures to support the ailing economy.

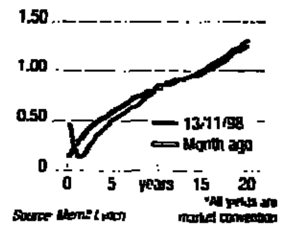
Last Thursday the LDP unveiled a "draft" stimulus package of Y18,000bn of measures to be implemented in the coming months, that included Y7,000bn worth of corporate and income tax cuts, additional public spending, and new loans to the corporate sector.

However, the Nikkei 225, the stock market index, fell after the news, as investors expressed disappointment that the package did not include a pledge to reverse the rise in consumption tax imposed last year.

On Friday shares rallied again, after rumours emerged that the LDP might have added this measure to the package, when it unveils the plans today. This left the market closing at 14,268.21, up 1 per cent on the week.

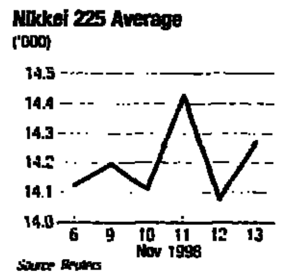
If the LDP does produce further steps today, the rebound could be sustained. The recent rally has already left the Nikkei 225 above 14,000 for seven consecutive days – the longest period it has sustained these levels since early September.

Benchmark yield curve (%)*



Source: Merrill Lynch *All yields are market convention

Nikkei 225 Average ('000)



Source: Reuters

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	-	53½	48	Anglian Water B	51½		-	-	-	-
-	F.P.	3.25	85	65	†Charriol	65		-	-	-	-
§	F.P.	6.10	117	107	Collective Assets Tst	117		-	-	-	26.3
-	F.P.	391.3	325½	229½	First Active	288½		-	-	-	17.2
§	F.P.	21.7	103	100¼	Guinness Flt Grd 15/6	102½		-	-	-	-
§	F.P.	6.38	108	101	Do Inc	105½		-	-	-	-
§	F.P.	15.7	104½	100	Do Zero Div Prf	103¾		-	-	-	-
§55	F.P.	14.7	65	56½	†Honeycombe Leisure	65	+½	-	-	-	10.3
§97	F.P.	7.05	103	79½	MSW Technology	86		-	-	-	13.0
-	F.P.	36.6	12½	10	Marley B	10½		-	-	-	-
§	F.P.	5.17	5½	5	†Natural Bldg Mts	5½		-	-	-	-
§	F.P.	2.10	105	105	†Do Cnv Prf	105		-	-	-	-
-	F.P.	-	62½	50½	†Old Monk Company	53½		-	-	-	13.5
-	F.P.	7.48	93	90½	Piccadilly Grwth	90½		1.6	0.5	2.2	71.0
100	F.P.	-	103	95	REXAM B	97½		-	-	-	-
-	F.P.	-	15	14	Thistle Hls Nao Cnv Pf	14½		-	-	-	-
-	F.P.	-	15	5	Xenova Wts	13¾		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998 High	1998 Low	Stock	Closing price p	+or-
44	Nil	27/11	2½pm	1¼pm	AdvancedMedicine	1¼pm	-⅛

pm premium.

FTSE GOLD MINES INDEX

	Nov 13	% chg since 31/12/97	Mkt Cap $bn	% of Gold Mines	Gross div yld %	Total return	52 week High	52 week Low
Gold Mines Index (29)	1130.63	8.8	35.84	100.00	1.62	1132.94	1351.57	701.58
■ Regional Indices								
Africa (9)	1213.47	9.9	9.91	26.90	3.33	1218.37	1488.04	765.63
Australasia (9)	1309.47	13.3	5.13	13.92	2.34	1314.21	1600.53	815.93
Americas (11)	1081.27	3.8	21.80	59.18	0.68	1082.18	1317.41	647.89

 Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial.

STOCK INDICES

	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	1998 High	1998 Low	Since comp. High	Since comp. Low
FTSE 100	5463.2	5449.0	5476.8	5432.3	5433.8	6179.0	4648.7	6179.0	986.9
FTSE 250	4826.4	4845.2	4872.8	4874.4	4984.9	5968.6	4251.2	5968.6	1379.4
FTSE 250 ex IT	4862.3	4883.2	4908.2	4913.7	4976.1	6030.9	4295.8	6030.9	1378.3
FTSE 350	2603.6	2598.7	2613.2	2595.8	2601.9	2967.8	2238.5	2546.4	664.5
FTSE SmallCap	2067.08	2065.69	2068.69	2059.81	2066.40	2868.09	1834.49	2868.09	1363.79
FTSE SmallCap ex IT	2031.35	2030.12	2029.92	2022.04	2025.39	5954.10	1815.83	5554.10	1363.79
FTSE All-Share	2518.44	2514.73	2527.38	2510.78	2516.81	2885.17	2168.07	2885.17	61.92

	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	1998 High	1998 Low	Since comp. High	Since comp. Low
FTSE Fledgling	1136.41	1135.45	1137.58	1136.08	1139.98	1517.11	1046.17	1517.11	31.14
FTSE Eurotop 100	2485.78	2480.05	2478.38	2465.62	2493.13	3088.91	2049.91	3088.91	2044.47
FTSE Eurotop 300	1077.88	1077.94	1079.21	1073.21	1084.81	1327.68	893.55	1327.68	874.08
FT 30	3298.9	3289.1	3328.2	3291.7	3320.6	3984.0	2806.8	3984.0	49.4
FT Govt Securities	111.81	111.59	111.14	111.45	110.85	115.45	93.31	141.84	49.18
FT Fixed Interest	151.44	151.10	150.38	150.17	149.28	164.68	115.32	154.60	50.53
FTSE Gold Mines	1130.63	1119.88	1089.14	1093.78	1118.13	1351.57	701.58	2874.61	701.58

CONTRACTS & TENDERS

COMPANIES DIARY

British Steel suffers from strength of sterling

British Steel is the stock most vulnerable to sterling strength in the FTSE 100 index, so recent weakness in the pound will have given investors some cause for cheer. However, that fall will have come too late to influence this set of interims.

The recent Asian troubles will have taken their toll in the form of a fall in the price of steel in that region and an almost complete cessation of exports by British Steel to the area. At recent price levels of about 100p, the shares stand at about 15 times this year's earnings forecasts, well above its peer group of European steel companies. BT Alex Brown expects a pre-tax result of £100m ($166m), a fall of 30 per cent.

Hard pounding: Sir Brian Moffat of British Steel

● Interim figures from Emap may be overshadowed by any comments the media and publishing company makes on prospects for the UK advertising market in coming months. Analysts will be looking particularly for signs of any downturn, although most seem to expect merely a slowing of growth. The company's consumer magazines business is seen as being particularly well placed as a barometer of consumer demand. The launch and closure of Telemax in France will hit the pre-tax line, but the underlying result is likely to be 11 per cent ahead, to £71m.

● Telefónica, the Spanish telecommunications group, is expected to report nine-month net profit after minorities of Pta163bn-Pta164.6bn ($1.13bn-$1.14bn), up from Pta141.8bn a year earlier, according to analysts' estimates.

Strong revenue growth from the domestic mobile telephone business will continue to be the main driver behind higher earnings, but growth from its international unit is expected to be weaker because of the broad economic slowdown in Latin America, where the company's investments are concentrated.

Growth from the domestic fixed-line telephony business is also expected to slow, reflecting rising competition.
AFX-News, Madrid

TUESDAY

● The core gases business at BOC is expected to have put in another robust performance, although this may have been undermined by the effects of currency translation, and the health care and vacuum businesses.

A consensus of analysts' forecasts from First Call, the estimates service, suggests they expect a result in the region of £385m, down from £445.2m last year.

● Turnover at Energis, the telecoms operator which floated last December, is expected to improve to between £115m and £118m for the first half, compared with £167.9m for the whole of last year. Interim earnings before interest, tax, depreciation and amortisation (Ebitda) should be between £14m and £18m.

● Analysts expect Northern Foods to produce flat interim profits, as dilutive acquisitions and a slowing retail environment combine to leave the pre-tax line static at £42m.

Recent figures from Marks and Spencer exhibited a slowing of food sales growth, and Northern Foods is unlikely to escape the results of this.

WEDNESDAY

● Hyder may take the opportunity at its interim results announcement to put forward its opinion on the recent comments from Ofwat, the water regulator, on the future pricing regime for the industry.

There may be some comments on dividend policy, in the wake of Anglian Water mentioning dividend rebasing. A pre-tax rise of 9 per cent to £115m is expected.

● Interim figures from National Power are likely to be affected by the end of the five-year coal deal, with its generous margins.

Nigel Hawkins at Williams de Broë thinks interest will focus on National Power's overseas initiatives, and any setbacks it may have encountered. He forecasts a pre-tax result of £225m, down from £254m.

● Safeway may become the latest retailer to suffer from weakening consumer demand, particularly since tough times have arrived just as it has spent heavily on marketing and supply chain improvements.

Analysts predict that the interim pre-tax line will fall, by some 16 per cent. Williams de Broë expects £192m, down from £230m.

THURSDAY

● Royal Nedlloyd is expected to report third-quarter net profit before exceptionals as low as Fl 3m ($1.57m), compared with Fl 31m a year earlier, according to analysts' forecasts.

Earnings per share are forecast to fall to Fl 0.13-Fl 0.37 from Fl 1.36. The results are expected to be hurt by the continuing poor performance of P&O Nedlloyd, in which Nedlloyd has a 50 per cent stake.
AFX-News, Amsterdam

FRIDAY

● United Utilities is expected to produce a slight interim rise from £234m pre-tax to £240m, but investor interest is likely to focus on the impact of regulatory issues and the prospects for the dividend in the light of the recent review of the water sector.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Household Finance Corp	1bn	Nov 2008	6½(a)	99.79R	6.579	+157(May08)	Merrill/Morgan Stanley
Toyota Motor Credit Corp	1bn	Nov 2003	5.625#	99.837R	5.663	+94(5¼Aug03)	M Stanley/Warburg
Oest Kontrollbank‡	250	Nov 2003	4⅝	98.056	5.077	+45(4¼Nov03)	CSFB
Sprint Capital Corp	1bn	Nov 2003	5.7(a)	99.983R	5.704	+104(Aug03)	Salomon Smith Barney
Sprint Capital Corp	1.5bn	Nov 2008	6⅛(a)	99.926R	6.135	+124(May08)	Salomon Smith Barney
Sprint Capital Corp	1.5bn	Nov 2028	6⅞(a)	99.836R	6.888	+144(Nov27)	Salomon Smith Barney
Inter-American Dev Bank	1bn	Jan 2008	5.375#	99.504R	5.440	+64(4¼Nov08)	JP Morgan/MSDW
National Australia Bank‡	350	Nov 2008	(g)	99.908R	-	-	Merrill/Tokyo-Mitsubishi
Hitachi Finance (UK)‡	100	Nov 1999	(h,i)	100.03	-	-	Nomura International
KfW International Finance	1bn	Nov 2003	5.00	100.031R	4.993	+52(4¼Nov03)	ABN/Deutsche/Goldman
Shell Finance UK	500	Nov 2003	5.00	99.998R	5.001	+60(4¼Nov03)	ABN Amro/M Stanley
European Inv'ment Bank(a)	250	Oct 2003	4.75	99.256R	4.922	+43(5¼Aug03)	M Stanley/Warburg
SunAmerica Inst Funding III	250	Nov 2003	5⅜(a)	99.559	5.478	+98(4¼Nov03)	Merrill Lynch Intl
GECC(n)	200	Nov 2003	5.00	99.845	5.036	+48(5¼Aug03)	Warburg Dillon Read
Republic of Italy	1bn	Nov 2003	5.00	99.465R	5.124	+62(4¼Nov03)	JP Morgan/Paribas
AFC MLABS 98-3(t)★	300	Nov 2028	-	-	-	-	Merrill Lynch
Pastor International Finance‡	100	Nov 2001	(i)	99.905R	-	-	Paribas
D-MARKS							
Republic of Turkey	600	Nov 2001	9.50	99.50R	9.700	+608(Nov01)	Commerz/Deutsche
Verbundgesellschaft	500	Dec 2008	4.75	99.64R	4.796	+62(5¼Jan08)	Merrill Lynch CM Bank
AMP (UK) Finance Services	1bn	Nov 2008	4.875	99.681R	4.916	+75(5¼Jan08)	ABN Amro/Warburg DR
STERLING							
European Inv'ment Bank(b)	100	Nov 2004	5.00	101.53	5.692	-	HSBC Markets
World Bank(c)	200	Jan 2003	8.50	103.1694	5.615	-	Salomon Smith Barney
Ned Waterschapsbank	150	Nov 2015	5.625	99.9238	5.632	+60(8⅝Dec15)	Salomon Smith Barney
BMW UK Capital	150	May 2005	6.125	99.811R	6.156	+104(Dec05)	Dresdner KB
GECC(d)	100	Feb 2003	6.00	100.483	5.659	-	Warburg Dillon Read
World Bank(f)	50	Nov 2004	6.25	103.40	5.568	-	HSBC Markets
Halifax plc(j)	100	Apr 2008	6.375	103.957	5.808	+76(7¼Dec07)	Barclays Capital
World Bank(k)	75	Jan 2003	6.50	102.8407	5.704	-	Salomon Smith Barney
European Inv'ment Bank(m)	150	Jun 2002	7.25	104.7114	5.730	-	Salomon Smith Barney
GECC	125	Jun 2021	5.50	98.80(s)	5.59	+73(8¾Jun21)	Merrill Lynch Intl
Statoil	150	Nov 2028	6.125	98.789	6.216	+155(6%-28)	Barclays/JP Morgan
FRENCH FRANCS							
M Stanley Dean Witter‡	1.3bn	Dec 2008	(e)	100.915	-	-	Morgan Stanley DW
YEN							
Nomura Global Funding	70bn	Nov 2002	1.50#	99.99	1.503	-	Nomura International
SWISS FRANCS							
John Hancock Global Fnds	500	Dec 2008	3.75	102.45	-	-	CSFB
Halifax	100	Dec 2004	2.25	100.10	-	-	Deutsche Bank(Swiss)
EUROS(e)							
GECC	250	Dec 2004	4.00	100.15	3.971	+10(l)	Warburg Dillon Read
GMAC	500	Dec 2004	4.625	99.961R	4.633	+80(l)	JPM/Paribas/Warburg
LW Rentenbank★	45	Dec 2003	3.50	100.00	-	-	IBJ Intl/New Japan
AUSTRALIAN DOLLARS							
GE Capital Australia	100	Dec 2003	5.00	100.81	-	-	RBC DS Global Markets
CANADIAN DOLLARS							
Canada Mtg & Hsng Assoc	650	Jan 2004	5.0(a)	99.042R	5.201	+18(6½Jan04)	Merrill/RBC/TD Secs
NEW ZEALAND DOLLARS							
KfW International Finance	100	Dec 2003	6.00	100.35	-	-	RBC DS Global Markets
LUXEMBOURG FRANCS							
Bayer Hypo-& Vereinsbank	2bn	Dec 2008	5.00	102.60	4.669	-	BGL
Bayerische Landesbank	2bn	Dec 2008	(f)	102.60	4.60	-	BCEE
DRACHMA							
European Investment Bank(u)	15bn	Dec 2001	7.50	99.1725R	7.820	-	RBC DS Global Markets

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ¢With equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Fungible with $500m. Plus 15 days accrued. b) Fungible with £1.2bn. No accrued. c) Fungible with £500m. Plus 310 days accrued. d) Fungible with £275m. Plus 278 days accrued. e) Payments in Ecu prior to Emu. Spread relates to French govt Ecu bonds. f) Fungible with £250m. No accrued. g) 3-mth Libor flat. h) 3-mth Libor +15bp. i) Over interpolated yield. j) Fungible with £300m. Plus 232 days accrued. k) Fungible with £700m. Plus 310 days accrued. l) Long 1st coupon. m) Fungible with $750m. Plus 28 days accrued. n) $400m launched 23/10/98 increased to $600m. o) Fungible with £675m. Plus 162 days accrued. q) 3-mth Pibor +60bp. r) 3-mth Libor +20bp. s) Short 1st coupon. t) 4% in yrs 1-4, 5% in yrs 5-7, then 6½%. u) Includes Dr5bn increase at 99.2425R. v) Mortgage Loan Asset Backed Certificates. 4-tranche deal. Note: Yields are calculated on ISMA basis.

CURRENCIES & MONEY

Fed ruling awaited

By Alan Beattie

A key decision this week by the US Federal Reserve could set the tone for the dollar into next year. The Fed's rate-setting committee meets on Tuesday, amid conflicting signals from both the domestic economy and the international situation.

The Fed's emergency rate cut on October 15, the first intra-meeting movement since 1994, led to fears that panic about a credit squeeze in US financial markets would lead to a loosening of monetary policy, weakening the dollar.

Markets thought at the time that the move presaged a series of rate cuts, with a further cut at the November meeting a near certainty.

More recently Alan Greenspan, the Federal Reserve chairman, has joined his G7 counterparts in downplaying the threat posed to economic growth by a worldwide financial credit contraction.

Nonetheless, credit spreads still indicate that the market is wary of venturing out of safe havens. The spread between US Treasuries and even the safest AAA-rated US corporate bonds remains at over 100 basis points, having unwound only a part of the rapid widening which followed the Russian debt default earlier this year.

Economics professor Paul Krugman told a conference last week that he expected the Fed to cut rates this week, "for no good reason except that the markets expect it". He said that the Fed would shy away from delivering a shock to the battered US financial system.

The state of the US domestic economy may also be weighing on the minds of the Federal Reserve.

The third-quarter gross domestic product (GDP) figures released since the most recent meeting showed growth higher than most had predicted. But an unexpected rise in inventories may signal an economic slowdown in the future.

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

Nov 13	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	-	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	-	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	3.69
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	3.69
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.50	5.00	5.12
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.50	5.00	5.12
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.75	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	5	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
$ LIBOR BBA London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	4.97	4.89	4.81	4.63	-	-	-
week ago	-	4.97	4.89	4.81	4.63	-	-	-
ECU Linked Ds	-	4	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	4	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

POUND IN NEW YORK

Nov 13	—Close—	—Prev. close—
£ spot	1.6640	1.6605
1 mth	1.6617	1.6582
3 mth	1.6578	1.6543
1 yr	1.6430	1.6393

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Companies and Finance page in today's edition.

EURO CURRENCY INTEREST RATES

[illegible]

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.81	94.79	-0.01	94.82	94.77	58,810	510,658
Mar	95.24	95.19	-0.04	95.26	95.16	91,674	508,457
Jun	95.27	95.20	-0.06	95.30	95.18	78,586	421,864

US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.72	95.68	-0.02	95.72	95.67	28	1,694
Mar	96.00	96.00	-0.02	96.03	95.98	40	356
Jun	-	96.04	-0.04	-	96.04	1	30

All Open interest figs. are for previous day

OTHER CURRENCIES

Nov 13	£	$
Czech Rp	50.1225 - 50.2065	30.1000 - 30.1350
Hungary	362.797 - 363.438	217.870 - 218.150
Iran	4996.00 - 4995.80	3000.00 - 3000.00
Kuwait	0.5044 - 0.5055	0.3029 - 0.3034
Peru	5.1480 - 5.1529	3.0915 - 3.0930
Poland	5.7699 - 5.7810	3.4650 - 3.4700
Russia	30.2234 - 30.4045	18.1500 - 18.2500
U.A.E.	6.1159 - 6.1194	3.6726 - 3.6731

BANK RETURN

The Bank Return table can be found on page 31 in today's edition.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.8232	0.8182	-0.0052	0.8286	0.8164	28,004	81,872
Mar	0.8355	0.8294	-0.0052	0.8355	0.8295	388	4,890
Jun	-	0.8394	-0.0052	-	0.8410	26	3,254

STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.6582	1.6626	+0.0032	1.6696	1.6582	10,395	51,423
Mar	1.6600	1.6588	+0.0028	1.6612	1.6550	34	1,596
Jun	-	1.6606	+0.0022	1.6550	-	4	1,202

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 (cents per DM)

[illegible]

BENCHMARK GOVERNMENT BONDS

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

Nov 13	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from Nov 5, 1998

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Nov 13, 6.3761pc. ECGD fixed rate Stlg. Export Finance. Make up day Oct 30, 1998. Agreed rate for period Nov 25, 1998 to Dec 25, 1998, Scheme III 8.47pc. Reference rate for period Oct 1, 1998 to Oct 30, 1998, Schemes IV & V 7.227pc. Finance House Base Rate 7½pc for Nov 1998.

BANK OF ENGLAND TREASURY BILL TENDER

	Nov 13	Nov 6		Nov 13	Nov 6
Bills on offer	£100m	£100m	Top accepted rate	6.3774%	6.3173%
Total of applications	£551m	£700m	Ave. rate of discount	6.3761%	6.3166%
Total allocated	£100m	£100m	Average yield	6.4790%	6.4176%
Min. accepted bid	£98.410	£98.425	Offer at next tender	£100m	£100m
Allotment at min. level	91%	100%	Min. accept. bid 28 days	-	-

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Exeter Trust Limited	6.25	Smith & Williamson	6.75
Allied Irish Bank (GB)	6.75	Financial & Gen Bank	8.00	Sun Bank	7.25
●Henry Ansbacher	6.75	●Robert Fleming & Co	6.75	TSB	6.75
Banco Bilbao Vizcaya	6.75	Habib Bank AG Zurich	6.75	United Bank of Kuwait	6.75
Bank of Cyprus	6.75	Heritable & Gen Inv Bk	6.75	Unity Trust Bank Plc	6.75
Bank of Ireland	7.25	C. Hoare & Co	6.75	Whiteaway Laidlaw	6.75
Bank of India	6.75	●Hambros Bank	6.75	Yorkshire Bank	6.75
Bank of Scotland	6.75	Hongkong & Shanghai	6.75		
Barclays Bank	6.75	Investec Bank (UK) Ltd	6.75	● Members of London Investment Banking Association	
Brit Bk of Mid East	6.75	Julian Hodge Bank	6.75		
●Brown Shipley & Co Ltd	6.75	●Leopold Joseph & Sons	6.75		
Citibank NA	6.75	Lloyds Bank	6.75		
Clydesdale Bank	6.75	Midland Bank	6.75		
The Co-operative Bank	6.75	NatWestminster	6.75		
Coutts & Co	6.75	●Rea Brothers	6.75		
Cyprus Popular Bank	7.25	Royal Bk of Scotland	6.75		
Duncan Lawrie	6.75	Scottish Widows Bank	6.75		
		●Singer & Friedlander	6.75		

UK GILTS PRICES

	Notes	Price £	Wk % +/-	Amt £m	Interest due	Last xd	City line
Shorts* (Lives up to Five Years)							
Exch 12pc 1998		100.8000xd	-.1	3,909	My20 No20	11.11	1259
Treas 9½pc 1999		100.4421		1,900	Jy15 Ja15	8.7	1347
Treas Flg Rate 1999		100.0579		5,700	[illegible]	7.9	4945
Exch 12¼pc 1999		102.0483	-.1	3,050	Se26 Mr26	17.9	1264
Treas 10½pc 1999		102.0792xd	-.1	1,252	Nv19 My19	10.11	1265
Treas 6pc 1999		99.8753		6,950	Fe19 Au19	3.8	5835
Conv 10¼pc 1999		104.1358xd	-.1	1,788	My22 Nv22	12.11	1242

[illegible]

EURO PRICES

EQUITIES

Germans braced for slowdown

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

The health of the German economy still exercises the minds of European investors, with even the German economics ministry admitting last week that a slowdown was likely in the fourth quarter.

The latest Ifo survey of business confidence, released on Thursday, is likely to continue the downward trend seen recently. But it is not expected to melt the hearts of the Bundesbank council, which most analysts forecast will continue its resistance to political pressure and leave interest rates unchanged when it meets on Thursday.

Bulls will be counting on the central bank across the Atlantic, instead, with many commentators hoping the Federal Reserve will cut rates when its open market committee meets tomorrow.

But the US also has the potential to disrupt the market with an air strike on Iraq, which might prompt investors to seek the safe haven of bonds.

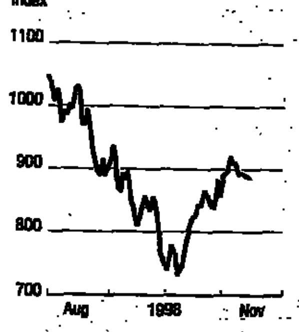
On the corporate front, markets will be hoping the recent revival of corporate restructuring plans will continue, with the German retailer Metro last week following up the extensive plan announced by Siemens the week before. And the planned merger between Ciba Speciality and Clariant reminded many of the scope for takeover activity.

The European team at J.P. Morgan said: "The pace of [merger and acquisition] deals in Europe slowed in the third quarter but the overall level remains well above trend. In the first nine months of 1998, M&A volume reached $522bn, 66 per cent higher than in the first nine months of 1997."

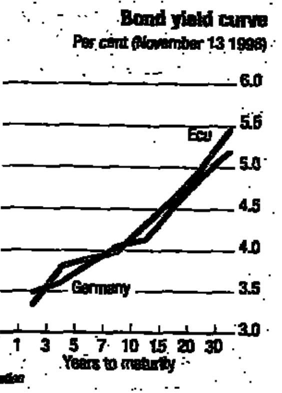
Last week ended with a very quiet day for equities with the trans-national indices barely moving. The FTSE Eurotop 100 index gained 5.73 to 2,485.78 while the broader Eurotop 300 fell 0.05 to 1,077.89. The FTSE Ebloc 100, comprising stocks in the core euro countries, fell 0.47 to 889.38.

Ian Scott, European strategist at Lehman Brothers, says that, despite the recent rally, "European markets are still undervalued relative to bonds. We need to see a full blown recession next year, or a sharp rise in bond yields, to justify the low valuation of equities."

FTSE Ebloc 100
Index



Bond yield curve
Per cent (November 13 1998)



Source: FTSE International, Interactive Data/FT Information

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.370	96.335	-0.020	96.370	96.335	449	9931
Mar	96.595	96.560	-0.030	96.595	96.595	50	5994
Jun	96.595	96.580	-0.030	96.595	96.585	50	2269
Sep	-	96.570	-0.035	-	-	0	1307

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS Nov	Dec	Jan	Mar	PUTS Nov	Dec	Jan	Mar
96500	0.005	0.020	0.130	0.170	0.170	0.185	0.080	0.120
96625	0	0.005			0.290	0.295		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	2500.0	2494.0	+6.0	2500.0	2475.0	1048	7014
Mar	-	2502.5	+6.0	-	-	0	1080

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2400 C	2400 P	2425 C	2425 P	2450 C	2450 P	2475 C	2475 P	2500 C	2500 P	2525 C	2525 P	2550 C	2550 P	2575 C	2575 P
Nov	101	23	83	29	65	35	59	45	38	59	27	74	18	91	12	110
Dec	161	75	144	82	128	91	113	101	98	112	87	126	76	135	65	166

Est. vol. total: [illegible]. Prev day's open interest total: [illegible]. Premiums shown are based on settlement prices.

OTHER INDICES

	Nov 13	Nov 12	Oct 11	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	2975.51	2975.59	2970.94	3676.82	2433.67	3676.82	2433.67
DJ Euro Stx 50	2924.97	2928.15	2935.14	3858.48	2419.23	3858.48	2419.23
MSCI Europe	(d)	1093.45	1097.39	1318.55	938.59	1315.55	310.78

Source: Datastream/FT Information. *Subject to revision next day. (d) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

November 13.

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1077.89	-0.00	-0.05	2.54	30.04	1114.73
FTSE Eurotop 100	2485.78	+0.23	+5.73	2.57	37.56	890.17
FTSE Ebloc 100	889.38	-0.05	-0.47	2.37	14.33	902.07
FTSE Eurotop 300 Regions						
Eurobloc	1117.71	-0.11	-1.19	2.24	20.87	1140.84
UK	1019.31	+0.39	+3.98	3.01	49.18	1085.43
Europe Ex-Eurobloc	1047.78	+0.10	+1.08	2.86	38.09	1095.76
Europe Ex-UK	1112.23	-0.20	-2.28	2.31	19.38	1132.43
FTSE Eurotop Industry Sectors						
RESOURCES	889.35	+2.01	+17.17	3.26	29.22	909.09
Extractive Industries	760.50	-1.19	-9.13	4.55	14.54	776.58
Oil, Integrated	840.89	+2.16	+17.77	3.22	21.73	861.35
GENERAL INDUSTRIES	965.55	+0.26	+2.55	2.83	20.31	984.99
Construction	927.57	+1.66	+15.18	2.97	11.06	938.46
Building Matls & Merchs	868.28	+0.10	+0.87	2.58	8.96	873.76
Chemicals	823.95	+2.33	+18.75	2.92	17.45	838.49
Diversified Industrials	875.08	-0.61	-5.38	2.70	17.48	890.10
Electronic & Elect Equip	837.90	+0.71	+5.87	1.98	5.41	842.46
Engineering	804.29	-0.67	-5.45	4.08	11.88	814.08
Paper, Pckg & Printing	765.03	-0.81	-6.26	3.03	1.21	765.98
CONSUMER GOODS	1124.48	-0.58	-6.57	1.67	49.50	1168.61
Automobiles	776.83	-0.37	-2.91	2.93	10.25	784.03
Alcoholic Beverages	889.10	+1.02	+9.00	3.00	296.79	1324.50
Food Producers	952.44	-1.18	-11.39	1.80	9.79	961.58
Household Goods & Texts	914.81	-2.60	-24.41	2.08	7.88	921.47
Healthcare	879.29	-2.86	-25.86	1.33	13.51	892.45
Pharmaceuticals	991.86	-0.33	-3.32	1.30	5.27	997.35
Tobacco	1254.54	-0.06	-0.72	4.03	15.88	1271.78
SERVICES	1100.52	-0.12	-1.36	2.14	22.57	1130.78
Distribution	770.83	-1.65	-12.92	2.82	11.37	779.29
Leisure & Hotels	711.17	+1.30	+9.11	3.49	12.27	720.47
Media	950.74	-0.12	-1.18	2.33	10.66	960.90
Retailers, Food	1001.25	-0.02	-0.18	2.05	14.17	1015.73
Retailers, General	934.34	+0.60	+5.61	3.38	19.32	952.45
Telecommunications	1020.13	-0.31	-3.15	1.89	13.02	1032.53
Breweries, Pubs & Rests	764.43	+2.17	+16.22	3.50	16.00	777.95
Support Services	893.52	-1.50	-13.61	1.65	9.87	902.99
Transport	925.79	+0.91	+8.35	2.68	18.24	942.86
Information Technology	854.06	-1.15	-9.93	0.43	2.33	856.09
UTILITIES	1430.13	+0.47	+6.71	3.09	55.62	1510.13
Electricity	1072.71	+0.71	+7.61	3.27	26.23	1101.36
Gas Distribution	1154.04	-0.21	-2.44	1.61	93.32	1270.66
Water	1068.12	+0.37	+3.96	4.76	38.72	1105.84
FINANCIALS	1124.41	-0.34	-3.89	2.90	27.32	1154.49
Banks, Retail	771.78	-0.27	-2.12	3.78	12.96	782.14
Insurance	882.23	-0.35	-3.12	1.57	11.79	892.87
Life Insurance	1028.80	-0.67	-6.99	1.89	12.98	1042.16
Other Financial	810.72	-0.91	-7.47	2.38	15.95	824.26
Investment Companies	872.43	-1.06	-9.33	1.56	20.65	888.74
Property	713.26	+0.49	+3.45	3.45	16.01	726.37

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FTSE EUROTOP 300

Name	Price (Ecu)	Chge + or -	Mkt cap Ecu(bn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES					
AUTOMOBILES					
BANKS RETAIL					
BREWERIES, PUBS & RESTAURANTS					
BUILDING MATERIALS & MERCHANTS					
CHEMICALS					
CONSTRUCTION					
DISTRIBUTORS					
DIVERSIFIED INDUSTRIALS					
ELECTRICITY					
ELECTRONIC & ELECTRICAL EQPT.					
ENGINEERING					
EXTRACTIVE INDUSTRIES					
FOOD PRODUCERS					
GAS DISTRIBUTION					
HEALTH CARE					
HOUSEHOLD GOODS & TEXTILES					
INFORMATION TECHNOLOGY					
INSURANCE					
INVESTMENT COMPANIES					
LEISURE & HOTELS					
LIFE ASSURANCE					
MEDIA					
OIL, INTEGRATED					
OTHER FINANCIAL					
PAPER, PACKAGING & PRINTING					
PHARMACEUTICALS					
PROPERTY					
RETAILERS, FOOD					
RETAILERS, GENERAL					
SUPPORT SERVICES					
TELECOMMUNICATIONS					
TOBACCO					
TRANSPORT					
WATER					

[illegible]

Notes
[illegible]

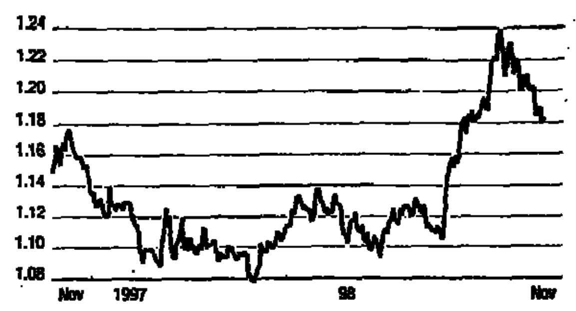
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Nov 13	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.050579	-0.0021	-0.02	-0.0023	-0.02
Belgium	BEF	41.195571	-0.0097	-0.02	-0.0072	-0.02
Czech Republic	CZK	35.607930	+0.2168	+0.61	+0.4789	+1.38
Denmark	DKK	7.594853	+0.0014	+0.02	+0.0012	+0.02
Finland	FIM	6.073140	-0.0004	-0.01	+0.0001	+0.00
France	FRF	6.698093	+0.0002	+0.00	+0.0007	+0.01
Germany	DEM	1.997109	-0.0003	-0.02	-0.0004	-0.02
Greece	GRD	335.720428	+0.8727	+0.26	+0.9049	+0.27
Hungary	HUF	257.749016	-0.4743	-0.18	+0.0359	-0.01
Ireland	IEP	0.802414	+0.0000	+0.00	-0.0002	-0.02
Italy	ITL	1975.827509	-0.1714	-0.01	+0.3457	+0.02
Luxembourg	LUF	41.195571	-0.0097	-0.02	-0.0072	-0.02
Netherlands	NLG	2.252127	+0.0001	+0.00	-0.0003	-0.01
Norway	NOK	8.870770	-0.0316	-0.35	-0.0002	+0.00
Poland	PLN	4.099558	+0.0149	+0.37	-0.0130	-0.32
Portugal	PTE	204.847666	+0.1679	+0.08	+0.0725	+0.04
Romania	ROL	11683.888035	+28.2623	+0.24	-152.1429	-1.29
Russia	RUB	21.517509	+0.1592	+0.75	+2.3515	+12.27
Slovakia	SKK	43.488422	+0.2856	+0.66	+0.6792	+1.59
Spain	ESP	169.881914	+0.1245	+0.07	+0.0439	+0.03
Sweden	SEK	9.620573	+0.0437	+0.46	+0.2377	+2.53
Switzerland	CHF	1.645380	-0.0006	-0.04	+0.0025	+0.15
United Kingdom	GBP	0.709841	-0.0041	-0.57	-0.0129	-1.79
ECU	ECU	1.014752	-0.0007	-0.06	-0.0019	-0.19
Americas						
Brazil	BRL	1.407623	+0.0026	+0.18	-0.0200	-1.40
Canada	CAD	1.834545	+0.0066	+0.36	-0.0033	-0.18
Mexico	MXN	11.818078	-0.0458	-0.39	-0.1850	-1.54
United States	USD	1.182281	+0.0023	+0.19	-0.0193	-1.61
Pacific/Middle East/Africa						
Australia	AUD	1.849205	-0.0216	-1.15	-0.0468	-2.47
Hong Kong	HKD	9.154891	+0.0180	+0.20	-0.1489	-1.60
Japan	JPY	144.504259	-1.6646	-1.14	+2.3397	+1.65
Singapore	SGD	1.953719	-0.0039	-0.20	-0.0139	-0.71
South Africa	ZAR	6.792557	+0.0016	+0.02	+0.2016	+3.06

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0386, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0325, FIM 0.0187.

Synthetic Euro against the dollar
$ per Euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

Nov 13	Fixed rate	Market rate	Diff fxd v mkt%	Week ago %	Forward rate	Forward Int rate	Diff int rates v DEM
Austria	7.03552	7.0355	+0.00	+0.00	7.0345	3.48	-0.11
Belgium	20.6255	20.6281	+0.01	+0.01	20.6245	3.46	-0.13
France	3.35386	3.3539	+0.00	-0.03	3.3534	3.48	-0.11
Finland	3.04001	3.041	+0.03	+0.01	3.0408	3.54	-0.05
Ireland	0.402676	0.4016	-0.22	-0.22	0.402	3.97	+0.38
Italy	990.002	989.3441	-0.07	-0.10	990.0485	4.14	+0.55
Luxembourg	20.6255	20.6281	+0.01	+0.01	20.6245	3.46	-0.13
Netherlands	1.12674	1.1277	+0.09	+0.08	1.1272	3.25	-0.34
Portugal	102.505	102.5722	+0.07	+0.01	102.5698	3.57	-0.02
Spain	85.0722	85.0639	-0.01	-0.05	85.1007	3.92	+0.33
Germany	1		+0.00	+0.00		3.59	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3, forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates; Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98; DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

INTEREST RATE SWAPS

Nov 13	D-Mark Bid	D-Mark Ask	Ecu Bid	Ecu Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.57	3.60	3.66	3.70	6.50	6.53	5.05	5.08	0.34	0.37
2 year	3.61	3.64	3.64	3.68	6.10	6.14	5.03	5.06	0.41	0.44
3 year	3.70	3.73	3.72	3.76	6.06	6.10	5.12	5.15	0.51	0.54
4 year	3.83	3.86	3.84	3.88	6.05	6.09	5.17	5.20	0.61	0.64
5 year	3.98	4.01	3.99	4.03	6.01	6.05	5.24	5.27	0.72	0.75
6 year	4.13	4.16	4.14	4.18	5.96	6.00	5.31	5.34	0.83	0.86
7 year	4.26	4.29	4.27	4.31	5.91	5.95	5.37	5.40	0.94	0.97
8 year	4.38	4.41	4.38	4.42	5.86	5.90	5.43	5.46	1.06	1.09
9 year	4.48	4.51	4.48	4.52	5.83	5.87	5.49	5.52	1.18	1.21
10 year	4.56	4.59	4.57	4.61	5.81	5.85	5.56	5.59	1.30	1.33
12 year	4.72	4.75	4.73	4.77	5.78	5.83	5.69	5.72	1.54	1.58
15 year	4.91	4.94	4.91	4.95	5.76	5.82	5.82	5.85	1.77	1.81
20 year	5.11	5.14	5.11	5.15	5.73	5.80	5.94	5.97	1.96	2.01
25 year	5.25	5.28	5.25	5.29	5.72	5.79	5.94	5.97	2.02	2.07
30 year	5.32	5.35	5.32	5.36	5.70	5.78	5.97	6.00	2.11	2.16

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months LIBOR. £ and Yen quoted on a semi-annual actual/365 basis against 6 months LIBOR. D-mark and Ecu quoted on annual bond 30/360 basis against 6 month LIBOR with the exception of the 1 year rate which is quoted against 3 months LIBOR. Source: Intercapital Brokers Ltd.

EUROZONE CORPORATE BONDS

Nov 13	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	110.260	4.39	+0.00	+0.02	+0.07
France (Rep of)	04/08	5.250	AAA	107.700	4.24	+0.00	-0.03	-0.08
Italy (Rep of)	05/08	5.000	AA	104.290	4.44	-0.01	-0.14	+0.12
Portugal (Rep of)	06/08	5.375	AA-	106.540	4.52	+0.00	+0.06	+0.20
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	103.420	3.98	+0.01	+0.05	+0.08
Gen Electric Cap Crp	10/04	5.500	AAA	107.630	4.02	+0.01	+0.01	+0.06
Oest Kontrollbank	04/08	5.250	AAA	104.857	4.60	+0.00	+0.01	+0.28
Cred Local de France	04/08	5.250	AA+	104.230	4.68	-0.02	-0.14	+0.36
Ecu Issues								
Bayer Hypo & Wch Bk	07/01	5.000	AA-	102.510	3.97	+0.00	+0.05	+0.17
Cred Foncier France	03/04	8.375	A	118.176	4.46	-0.01	+0.04	+0.50
Euro Inv Bank	04/04	5.250	AAA	106.450	3.90	-0.02	-0.08	-0.06
ABN Amro Hldg. NV	04/07	6.375	AA-	110.260	4.66	+0.02	-0.14	+0.64

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency; Ecu bonds are issued in Ecus but convert to Euros 1/1/99.

GOVERNMENT BOND SPREADS vs ECU

Nov 13	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"INs"						
Austria	-0.07	+0.03	+0.26	+0.03	-0.46	+0.01
Belgium	-0.13	+0.01	+0.16	+0.12	+0.02	-0.07
Finland	-0.17	+0.06	+0.25	+0.18	-0.50	-0.95
France	-0.18	-0.10	-0.07	-0.07	-0.05	-0.27
Germany	-0.16	-0.07	+0.07	-0.19	-0.11	-0.26
Ireland	-0.06	-0.03	+0.12	+0.12	+0.14	+0.39
Italy	+0.05	+0.09	+0.23	+0.21	+0.17	+0.06
Luxembourg	-0.13	+0.01	+0.16	+0.12	+0.02	-0.07
Netherlands	-0.11	+0.00	+0.13	-0.07	+0.07	-0.27
Portugal	-0.10	+0.06	+0.30	+0.18	+0.22	+0.06
Spain	-0.19	-0.05	+0.27	+0.23	+0.10	+0.00
"OUTs"						
Denmark	+0.32	+0.40	+0.46	+0.31	-0.02	+0.48
Greece	+6.58	+4.90	+3.90	+3.23	+2.28	+1.83
Sweden	+0.19	+0.30	+0.48	+0.34	+0.21	-0.24
UK	+1.78	+1.05	+1.05	+0.64	-0.16	-0.85

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Nov 13	S & P rating	Red date	Coupn	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	+0.14	+0.19	+0.13
France Telcom	AA+	11/06	6.250	FRF	+0.24	+0.11	+0.30
Halifax	AA	07/07	5.625	DEM	+0.46	+0.36	+0.37
Ing Bank NV	AA-	01/08	5.500	NLG	+0.30	+0.18	+0.27
Bayer Hypo W Bk	AA-	02/02	8.750	ITL	+0.26	+0.22	+0.25
Cred Foncier	A	02/03	7.250	DEM	+0.49	+0.35	+0.49
Thomson-Brandt Int	A-	03/04	6.375	FRF	+0.50	+0.47	+0.45
Generale des Eaux	N/A	03/04	6.250	FRF	+0.40	+0.36	+0.41
Bank of China	BBB	07/09	7.125	DEM	+1.96	+2.17	+3.05
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	+0.90	+1.01	+1.92
Korea Dev Bank	BB+	11/02	5.625	FRF	+6.08	+6.46	+7.34
Argentina	BB	04/08	8.125	XEU	+4.92	+5.46	+5.68

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov	Mkt cap£m	Last xd	City line
Allied Domecq	‡#	515xd	-2.2	025.33	1.5	5,381	2.11	2222
Belmer (HP)		335	2.9	13.8	1.5	187.4	10.8	2005
Burn Stewart		18	56.5	–	–	10.7	1097	1918
Diageo	s#	645xd	3.4	018.8	1.5	23,887	5.10	2781
Glenmorangie A		697½	-2.8	14.2	3.0	84.8	13.7	3257
B		427½	–	7.1	3.0	33.1	13.7	3258
Highland	‡	250	0.4	9.35	2.3	334.0	5.5	2880
5¾pc Cv Sb Bd		94¼	3.0	05¾%	–	45.4	5.1	2823
Kirin Y		628½	-5.5	025%	1.7	6,828	35.12	1119
Matthew Clark	‡♦	239½	–	13.8	2.3	272.0	3.8	2153
Merrydown		23½	-6.0	–	–	6.25	797	3282
Seagram C$		2284	-6.4	066c	–	7,811	35.6	–

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Continued

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

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LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise indicated. For FTSE index constituents and reserves, last trade prices at or prior to market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS").

Net dividends are shown in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market capitalisations shown are calculated separately for each line of stock quoted.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ¢ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange
- ♣ Free annual/interim report available: see details below
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies
- # Price at time of suspension
- . Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- § Forecast dividend, cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend; cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.

z Dividend includes a special payment. Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1998-99. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1999. K Dividend based on prospectus or other official estimates for 1998. L Estimated annualised dividend, cover based on latest annual earnings.

M Dividend based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: **Additions:** Geared Inc Zero Pf (InTr Split Cap), Exeter Enhanced Inc Fnd (InCo), SupaRole (AIM). **Deletions:** Concentric (Eng), Perilya Mines (ExtInd), Jerome (HseGd), Gartmore Br Inc & Grth New Inc, INVESCO Recovery Tst, Do Prf, Schroder Jap Wrts (InTr), Security & General Media (P&PP), Voss Net (AIM).

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For Retail Price Index details call 0891 43 0085.

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

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Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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Newton Fund Mgrs - Contd.

Perpetual Fund Management (Jersey) Ltd

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

ABN AMRO Funds (u)

Fleming Group - Contd.

Mercury Asset Management

Templeton Global Strategy Funds (u)

LUXEMBOURG (REGULATED)(**)

Cox & Kings Overseas Fund

Credit Agricole Indosuez

Credit Lyonnais Rouse (Bermuda) Ltd

Credit Suisse Asset Mgmt Funds

MFS American Funds

Merrill Lynch Asset Management

Templeton Russian & East European Debt Fd

Tower Fund

Tweedy, Browne Value Funds

UBS AG

OFFSHORE INSURANCES

Aberdeen International Ltd

FT MANAGED FUNDS SERVICE

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Equitable Life (International)

Equity Fund Managers

Eurolife Assurance Group

Finance International Ltd

Friends Provident International

PanEuroLife societe anonyme

Premier Life

Royal & Sun Alliance Intl Financial Srvs

Ermitage Group

Europe 1992

Eurovest Ltd

Everest Capital Limited

F.I. Founders Asset Management Ltd (IoM)

Global Asset Management - Contd.

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 13 / Sch)

BELGIUM/LUXEMBOURG (Nov 13 / Frs.)

CZECH REP (Nov 13 / Koruna)

DENMARK (Nov 13 / Kr)

FINLAND (Nov 13 / Mks)

FRANCE (Nov 13 / Frs.)

GERMANY (Nov 13 / Dm.)

GREECE (Nov 13 / Drachma)

IRELAND (Nov 13 / Punt)

ITALY (Nov 13 / Lire)

NETHERLANDS (Nov 13 / Fl.)

NORWAY (Nov 13 / Kroner)

POLAND (Nov 13 / Zloty)

PORTUGAL (Nov 13 / Escudo)

SPAIN (Nov 13 / Pta.)

SWEDEN (Nov 13 / Kronor)

SWITZERLAND (Nov 13 / Frs.)

TURKEY (Nov 13 / TK Lira)

PACIFIC

JAPAN (Nov 13 / Yen)

HONG KONG (Nov 13 / H.K.$)

INDONESIA (Nov 13 / Rupiah)

MALAYSIA (Nov 13 / MYR)

NEW ZEALAND (Nov 13 / NZ $)

SINGAPORE (Nov 13 / S$)

AUSTRALIA (Nov 13 / Aust$)

SOUTH KOREA (Nov 13 / Won)

TAIWAN (Nov 13 / TW $)

THAILAND (Nov 13 / Baht)

AFRICA

SOUTH AFRICA (Nov 13 / Rand)

AMERICAS

CANADA

TORONTO (Nov 13 / Cdn $) 4 pm close

MONTREAL (Nov 13 / Cdn $) 4 pm close

MEXICO (Nov 13 / Peso) 12.30pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY NOVEMBER 13 1998 US Dollar Index	%chg since 31/12/97	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/97	Gross Div. Yield	THURSDAY NOVEMBER 12 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	197.92	-1.1	176.17	152.91	173.81	205.89	0.8	3.63	198.91	178.62	154.18	173.28	207.64	219.96	163.86	204.09
Austria (22)	179.95	-4.8	160.18	139.03	158.03	157.92	-10.6	2.21	180.45	161.85	141.29	158.80	158.68	253.73	166.45	188.93
Belgium (27)	367.33	44.3	326.97	283.80	322.58	315.65	35.8	2.14	365.74	328.05	286.37	321.85	314.96	398.52	245.07	245.07
Brazil (32)	151.95	-36.3	135.26	117.40	133.44	333.01	-32.0	2.67	149.28	133.90	116.88	131.37	327.17	269.34	102.88	189.34
Canada (119)	190.89	-10.1	169.92	147.49	167.84	214.49	-2.5	1.85	188.43	169.02	147.54	165.82	211.37	248.78	158.94	212.25
Denmark (34)	467.03	4.4	415.72	360.83	410.14	408.05	-2.1	1.71	465.17	417.24	364.22	409.35	407.12	537.33	408.26	408.26
Finland (28)	438.46	57.4	390.29	338.75	385.05	472.69	48.5	1.93	439.95	394.82	344.48	387.16	475.23	508.46	267.59	298.37
France (75)	294.63	23.1	262.26	227.63	258.74	261.83	15.9	2.39	292.86	262.68	229.30	257.72	260.75	345.18	222.08	223.42
Germany (55)	256.76	11.9	228.55	198.37	225.48	225.48	5.1	1.43	256.26	229.86	200.65	225.51	225.51	325.61	211.20	211.20
Greece (35)	275.17	0.0	244.94	212.59	241.65	560.12	0.0	1.55	274.52	246.23	214.95	241.59	558.42	333.20	211.47	–
Hong Kong, China (67)	309.89	-13.2	275.84	239.42	272.14	308.08	-13.3	4.25	307.72	276.01	240.94	270.80	305.91	389.07	196.64	331.80
Indonesia (26)	43.06	-34.8	38.33	33.27	37.81	203.40	-8.7	1.56	42.42	38.05	33.22	37.33	208.19	113.69	19.04	112.41
Ireland (16)	469.57	16.9	417.98	362.79	412.37	449.06	13.1	2.11	466.66	418.58	365.39	410.67	447.13	560.44	373.78	374.24
Italy (53)	153.51	30.5	136.65	118.60	134.81	191.60	23.3	1.45	153.03	137.26	119.82	134.67	191.39	184.49	106.77	106.77
Japan (446)	93.08	-1.5	83.57	72.53	82.45	72.53	-7.4	1.04	91.64	82.20	71.75	80.64	71.75	109.73	76.83	98.60
Mexico (29)	1144.34	-36.5	1018.62	884.11	1004.95	12506.58	-21.3	2.84	1145.42	1027.40	896.86	1007.98	12591.09	1803.07	787.15	1460.17
Netherlands (27)	463.90	13.2	412.93	359.41	407.39	403.32	6.3	2.31	463.20	415.47	362.68	407.52	403.48	562.38	391.03	396.74
New Zealand (18)	59.50	-22.1	52.06	45.97	52.25	58.76	-15.9	4.91	59.26	53.15	46.40	52.15	59.36	85.33	45.68	83.98
Norway (35)	228.00	-28.6	202.96	178.16	200.23	232.20	-27.4	2.59	226.11	202.81	177.04	198.98	231.53	357.71	181.86	340.55
Philippines (22)	74.76	-5.8	66.55	57.76	65.65	150.89	-4.9	1.03	74.90	67.18	58.65	65.91	152.29	106.98	42.48	86.01
Portugal (18)	245.47	0.0	218.50	189.65	215.57	291.11	0.0	1.11	242.31	217.35	189.73	213.24	287.68	299.39	194.13	–
Singapore (41)	179.45	-20.3	159.73	139.64	157.59	136.65	-21.8	2.31	176.60	158.40	138.28	155.41	135.01	264.82	102.45	242.28
South Africa (39)	207.07	-22.0	184.32	159.98	181.84	280.02	-7.9	3.59	205.77	184.56	161.11	187.08	258.83	348.20	151.55	280.37
Spain (30)	252.86	29.8	314.09	272.82	309.87	384.10	22.4	2.06	358.31	321.39	280.56	315.32	390.50	417.73	244.47	244.47
Sweden (46)	460.28	-2.0	409.71	355.61	404.21	554.47	0.5	2.11	461.67	414.10	361.49	406.28	554.88	628.19	379.18	467.43
Switzerland (30)	383.18	12.4	341.08	296.04	336.51	330.61	7.3	1.29	384.91	345.25	301.38	338.72	332.88	439.48	307.73	308.95
Thailand (39)	19.34	0.2	17.22	14.94	16.99	27.66	-23.3	3.42	19.46	17.45	15.24	17.12	27.94	33.84	8.15	30.98
United Kingdom (205)	354.49	6.8	315.54	273.88	311.31	315.54	5.5	3.11	357.04	314.87	274.87	308.92	314.87	401.84	307.96	315.23
USA (620)	460.77	16.2	410.15	355.99	404.64	460.77	16.2	1.41	457.80	410.62	358.45	402.96	457.80	485.88	373.16	373.16
Americas (NN)	410.43	14.0	365.34	317.10	360.44	348.19	14.8	1.44	407.98	365.67	319.21	358.78	346.85	437.03	338.93	338.93
Europe (737)	327.89	13.4	291.87	253.33	287.95	298.62	9.0	2.25	326.71	293.04	255.81	287.51	298.63	388.24	272.02	272.02
Eurobloc (346)	94.02	0.0	83.69	72.64	82.57	89.37	0.0	1.92	93.86	84.19	73.49	82.60	89.39	113.28	81.53	–
Nordic (146)	431.11	5.0	385.53	334.62	380.35	439.58	4.3	2.03	433.54	388.87	339.46	381.52	439.91	555.97	380.04	411.97
Pacific Basin (730)	102.00	-3.7	90.79	78.80	89.57	80.67	-8.4	1.62	99.93	89.64	78.25	87.94	80.00	119.48	82.88	109.61
Euro-Pacific (1477)	195.86	7.4	174.34	151.32	172.00	162.36	2.8	2.06	194.18	174.17	152.04	170.89	161.97	220.19	166.00	177.36
North America (739)	442.01	15.1	393.98	341.96	388.69	443.86	15.4	1.43	439.85	394.34	344.24	388.89	440.87	489.20	363.11	363.11
Europe Ex. UK (529)	303.94	17.1	270.55	234.82	266.91	281.49	11.1	1.83	303.75	272.46	237.83	267.30	281.79	386.32	242.57	242.96
Europe Ex. Eurobloc (391)	90.36	0.0	80.43	69.81	79.35	89.39	0.0	2.60	89.85	80.59	70.35	79.07	89.39	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (183)	90.47	0.0	80.53	69.90	79.45	87.49	0.0	1.56	90.73	81.38	71.04	79.84	87.76	109.21	75.16	–
Pacific Ex. Japan (284)	178.34	-11.0	158.75	137.78	156.62	180.59	-10.7	3.79	177.18	158.93	138.73	155.92	180.73	217.77	128.26	207.65
World Ex. Eurobloc (1960)	96.53	0.0	85.92	74.58	84.77	95.67	0.0	1.69	95.70	85.84	74.93	84.21	95.12	103.16	83.09	–
World Ex. US (1686)	195.95	5.2	174.42	151.39	172.08	167.42	1.8	2.07	194.24	174.23	152.09	170.93	166.92	221.91	185.95	180.98
World Ex. UK (2098)	274.35	11.2	244.21	211.86	240.93	245.97	9.4	1.57	272.35	244.29	213.25	239.67	244.70	299.02	234.66	235.95
World Ex. Japan (1860)	374.52	12.4	333.37	289.35	328.90	364.30	11.2	1.80	372.41	334.03	291.59	327.72	362.78	411.28	315.05	315.05
The World Index (2306)	281.22	10.8	250.33	217.27	246.97	252.39	9.0	1.72	279.11	250.35	218.54	245.62	251.17	308.56	242.08	242.69

 PLEASE NOTE: The World Indices quarterly changes are effective 2/11/98. For further information contact FTSE International Limited. CONSTITUENT CHANGES DURING THE WEEK ENDING 13/11/98: Deletion: Chrysler Corporation (USA); Comptoirs Modernes (France); Name change: Daimler-Benz is now DaimlerChrysler (Germany); Sun Company to Sunoco Inc (USA). CONSTITUENT CHANGE WITH EFFECT 17/11/98: Weighting change: Brisa (Portugal) from 35% to 100%.

Emerging markets: IFC investable indices

Dollar terms

Nov 12 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	849.99	-3.2	-23.8
Brazil	301.97	-4.1	-37.4
Chile	482.85	-0.4	-24.9
Colombia[1]	358.83	+3.3	-56.5
Mexico	484.96	-2.3	-38.5
Peru[2]	138.59	+0.4	-38.3
Venezuela[3]	338.22	-2.5	-63.0
East Asia			
China[4]	30.28	-0.2	-45.2
India[7]	63.35	+0.8	-24.0
Indonesia[5]	20.63	-4.5	-38.7
Korea[6]	32.49	+0.3	+35.2
Malaysia	73.19	-3.0	-19.7
Pakistan[8]	92.33	+2.9	-62.8
Philippines	106.41	+0.2	-5.6
Sri Lanka[10]	87.35	-0.9	-42.1
Taiwan, China[9]	113.91		-19.2
Thailand	58.83	-7.7	+25.1
Europe			
Czech Rep	47.77	-1.5	-12.7
Greece	497.15	-1.5	+53.5
Hungary[11]	249.00	-1.1	-20.9
Poland[12]	530.02	-2.4	-11.2
Portugal	273.34	-2.5	+29.5
Russia	22.76	+0.2	-84.7
Slovakia	42.12	-1.1	-57.5
Turkey[14]	128.37	-1.5	-59.5
Mideast/Africa			
Egypt	65.66	-0.5	-29.6
Israel	92.65	-1.1	-23.8
Jordan	205.84	-0.1	-2.1
Morocco	170.86	-0.7	+31.1
S Africa[15]	137.07	-2.8	-23.8
Zimbabwe[16]	95.56		-62.0
Regions			
Composite	178.88	-1.9	-27.3
Latin America	437.49	-2.5	-35.4
Asia	91.06	-0.6	-15.5
EMEA	109.87	-2.0	-25.6
Europe	132.20	-1.7	-29.9
Eastn Europe	55.03	-1.3	-60.8
ME & Africa	56.40	-2.3	-21.2
Comp + Malay	179.81	-1.9	-26.9
Asia + Malay	91.44	-1.1	-15.1

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1990; (6)Jan 4 1991; (7)Nov 8 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)May 2 1997; (16) July 2 1998.
Latest indices were unavailable for this edition

4 pm close November 13

NEW YORK STOCK EXCHANGE PRICES

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

هكذا من الاصل

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Nov 13	Nov 12	Nov 11	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8919.59	8829.74	8823.82	9337.97 (17/7)	7539.07 (31/8)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	106.46	106.35	106.01	107.02 (5/10)	104.42 (11/8)	107.02 (5/10/98)	54.99 (1/10/81)
Transport	2871.30	2842.38	2838.74	3686.02 (16/4)	2345.00 (8/10)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	306.87	305.62	305.44	320.51 (8/10)	282.66 (8/1)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high (d) 8951.28 Low (d) 8733.70 (Theoretical) Day's high 8985.51 (8985.73) Low 8829.84 (8810.94) (Actual)

Standard and Poors	Nov 13	Nov 12	Nov 11	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1125.72	1118.17	1120.97	1186.75 (17/7)	927.69 (8/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials‡	1346.14	1340.10	1344.26	1380.48 (17/7)	1077.40 (8/1)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial‡	121.10	118.54	118.97	147.89 (14/7)	95.80 (8/10)	147.89 (14/7/98)	7.13 (4/5/74)
Others							
NYSE Comp.	556.17	552.58	553.36	600.75 (17/7)	477.20 (8/10)	600.75 (17/7/98)	4.64 (25/4/42)
Amex Comp	669.36	665.89	663.81	763.87 (22/4)	563.75 (8/10)	763.87 (22/4/98)	524.20 (10/7/98)
NASDAQ Comp	1847.99	1851.06	1862.11	2014.25 (20/7)	1419.12 (8/10)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	389.36	392.20	393.47	491.41 (21/4)	310.28 (8/10)	491.41 (21/4/98)	123.36 (7/12/83)

RATIOS

	Nov 6	Oct 30	Oct 23	Year ago
Dow Jones Ind. Div. Yield	1.68	1.75	1.77	1.76

	Nov 11	Nov 4	Oct 28	Year ago
S & P Ind. Div. yield	na	na	1.26	1.58
S & P Ind. P/E ratio	na	na	31.32	24.36

US DATA

MARKET ACTIVITY

Volume (million)	Nov 13	Nov 12	Nov 11
NYSE	604.419	657.203	715.750
Amex	18.643	21.509	27.059
NASDAQ	809.502	802.986	930.053

NYSE	Nov 13	Nov 12	Nov 11
Issues Traded	3,479	3,513	3,465
Rises	1,582	1,343	1,187
Falls	1,400	1,664	1,798
Unchanged	497	506	502
New Highs	41	42	39
New Lows	19	25	27

NYSE TRADING ACTIVITY

Volume : 604,413,420

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
MedOne	16,531,200	38¼	+⅛
Citygp	9,483,300	43¾	+1⅛
Safeway	9,132,100	51⅛	−3⅜
Compaq	8,999,900	33⅞	−⅛
AmOnLine	8,220,400	139⅞	−1⅛
MicroTech	5,930,100	44¾	−2¾
PhMorr	5,708,000	54⅛	+⅛
CadenceDsgn	5,360,700	29¾	+1⅜
Pepsico	5,154,200	38¾	+1⅜
LucentTch	5,117,500	83⅝	−2⅞

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Schwab	54⅞	+5⅛	+10.5
Neiman Mar	25⅞	+2⅛	+8.9
Lehman	39⅝	+2⅞	+7.8
BostSci	48	+3¼	+7.3
Downs			
Cash Amer	11⅞	−⅞	−7.5
Medlnt	14⅜	−1⅛	−7.5
Safeway	51⅛	−3⅜	−6.9
Gt2000	62¼	−6⅜	−6.8

NASDAQ TRADING ACTIVITY

Volume :809,502,200

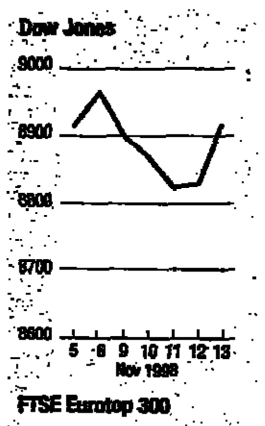
ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
DellComp	91,686,500	63⅜	−5¼
HBO & Co	26,888,600	22⅝	−2⅛
Intel	14,723,300	103¾	+1⅛
Yahoo	7,408,600	188	−2⅜
WorldCm	7,361,700	64⅜	+⅛
Excite	7,008,700	49⅞	−2⅞
AppleC	6,960,900	35⅞	+1⅞
AppMat	6,685,700	35⅞	−⅛
Micsft	6,510,700	110	+1⅜
CiscoSys	6,416,400	64⅞	−⅛

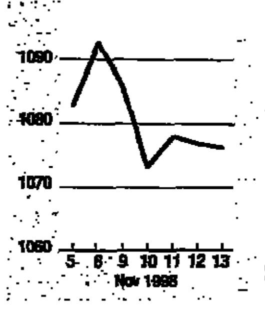
BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
EarthShell	14⅜	+1⅞	+14.7
MrvaMed	13⅜	+1⅛	+10.0
Symbiloy	11⅛	+1	+9.5
Iomega	77⅛	+6⅛	+8.6
Downs			
HyperonSol	28⅞	−3⅝	−11.1
McGrath R	19⅞	−2⅛	−9.4
Bgldst	12⅛	−1⅛	−8.3
HBO & Co	22⅝	−2⅛	−8.2

Dow Jones



FTSE Eurotop 300



JAPAN

[illegible]

FRANCE

[illegible]

GERMANY

[illegible]

UK

[illegible]

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	1123.00	1133.30	+9.50	1134.00	1121.00	88,472	399,848
Mar	1137.00	1144.30	+9.70	1144.50	1133.50	1,484	14,590
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Dec	14150.0	14320.0	+200.0	14370.0	13980.0	40,938	188,623
Mar	14020.0	14300.0	+200.0	14300.0	14000.0	37	7,658

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Nov	3560.0	3568.0	−3.0	3594.0	3523.0	56,768	212,284
Dec	3585.0	3574.5	−3.0	3585.0	3531.0	3,587	78,506
DAX							
Dec	4665.0	4685.0	−10.5	4730.0	4620.0	21,453	80,366
Mar	4734.0	4704.5	−18.0	4768.0	4662.5	386	3,136

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Nov	643.00	638.50	−0.25	646.00	633.00	13,157	201,779
Dec	647.00	640.50	-	648.00	635.00	885	19,475
SOFFEX							
Dec	6750.0	6730.0	+1.0	6787.0	6687.0	19,701	161,362
Mar	6791.0	6754.0	+1.0	6798.0	6725.0	229	4,966

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

Country	Index	Nov 13	Nov 12	Nov 11	1998 High	1998 Low	Yield	P/E
Argentina	General	18579.19	18321.97	18854.63	23495.47 23/3	12303.14 10/9	3.37	12.30

Closed higher, boosted by the IMF package of aid for its biggest trading partner, Brazil.

Country	Index	Nov 13	Nov 12	Nov 11	1998 High	1998 Low	Yield	P/E
Australia	All Ordinaries	2681.3	2708.3	2730.7	2881.40 16/4	2458.28 1/9	3.13	20.40
	All Mining	641.1	631.7	631.3	713.10 23/4	498.80 31/8		

News Corp slid after disappointing Q1 results. Telstra, Rio and NAB also underperformed, while golds jumped 2 per cent.

Country	Index	Nov 13	Nov 12	Nov 11	1998 High	1998 Low	Yield	P/E
Hungary	Bux	5532.09	5578.61	5612.18	9816.36 23/4	3775.82 21/8	na	na

Trading muted in the absence of corporate results.

Country	Index	Nov 13	Nov 12	Nov 11	1998 High	1998 Low	Yield	P/E
India	BSE Sens.	2976.12	3009.57	2976.17	4280.95 21/4	2764.16 20/10		
	Crisil 500	588.54	592.49	588.63	815.82 21/4	557.69 20/10	na	na

Reliance Industries, which had led a rally late on Thursday, fell back as rumours of a share buyback faded.

Country	Index	Nov 13	Nov 12	Nov 11	1998 High	1998 Low	Yield	P/E
Portugal	BVL 30	4659.94	4598.13	4663.72	6116.86 22/4	3580.08 2/10	2.05	26.60
	PSI 20	10674.68	10522.25	10720.45	14292.99 22/4	8114.51 2/10		

Talk of takeovers galvanised bank stocks in spite of denials from two of top three banks that they were in talks.

Country	Index	Nov 13	Nov 12	Nov 11	1998 High	1998 Low	Yield	P/E
Russia	RTS	59.32	60.53	60.75	411.81 5/1	38.53 5/10	na	na

Prices eased, following usual pre-weekend pattern, in spite of few large purchases.

[illegible]

THE NASDAQ-AMEX MARKET GROUP

4 pm close November 13

[illegible]

THE NASDAQ-AMEX MARKET GROUP

[illegible]

AMEX

4 pm close November 13

[illegible]

EASDAQ

[illegible]

FT GUIDE TO THE WEEK

MONDAY 16

Agenda for reform

The Agenda 200 proposals to reform European Union agricultural spending and regional aid programmes form the main focus of a week-long session of the European Parliament, meeting in Strasbourg. Other issues on the agenda include the Court of Auditors' review of EU spending and the incidence of fraud, aid to help eastern European countries prepare for EU membership, social policy and proposed legislation to safeguard the continent's water sources.

Lafontaine's week

Oskar Lafontaine, Germany's finance minister, starts a week of bilateral meetings with international counterparts with a Franco-German economic and financial policy summit in Bonn. Since taking office last month Mr Lafontaine has attracted criticism with calls for greater international co-operation on unemployment and for closer co-ordination of currency policy. On Thursday he travels to Rome and London for meetings with the Italian and British finance ministers before flying to Washington for meetings on Friday with US Treasury secretary Robert Rubin, Federal Reserve chairman Alan Greenspan and James Wolfensohn, World Bank president.

Korean inspection bid

Charles Kartman, the US special envoy for Korean affairs, visits Seoul before flying to Pyongyang to discuss a possible inspection of North Korea's suspected underground nuclear facility.

Union meeting

Defence and foreign ministers representing member countries of the Western European Union meet for two days in Rome. Among items for discussion is the EU proposal for the creation of a defence and aerospace conglomerate capable of challenging big US groups in the field.

Apec summit

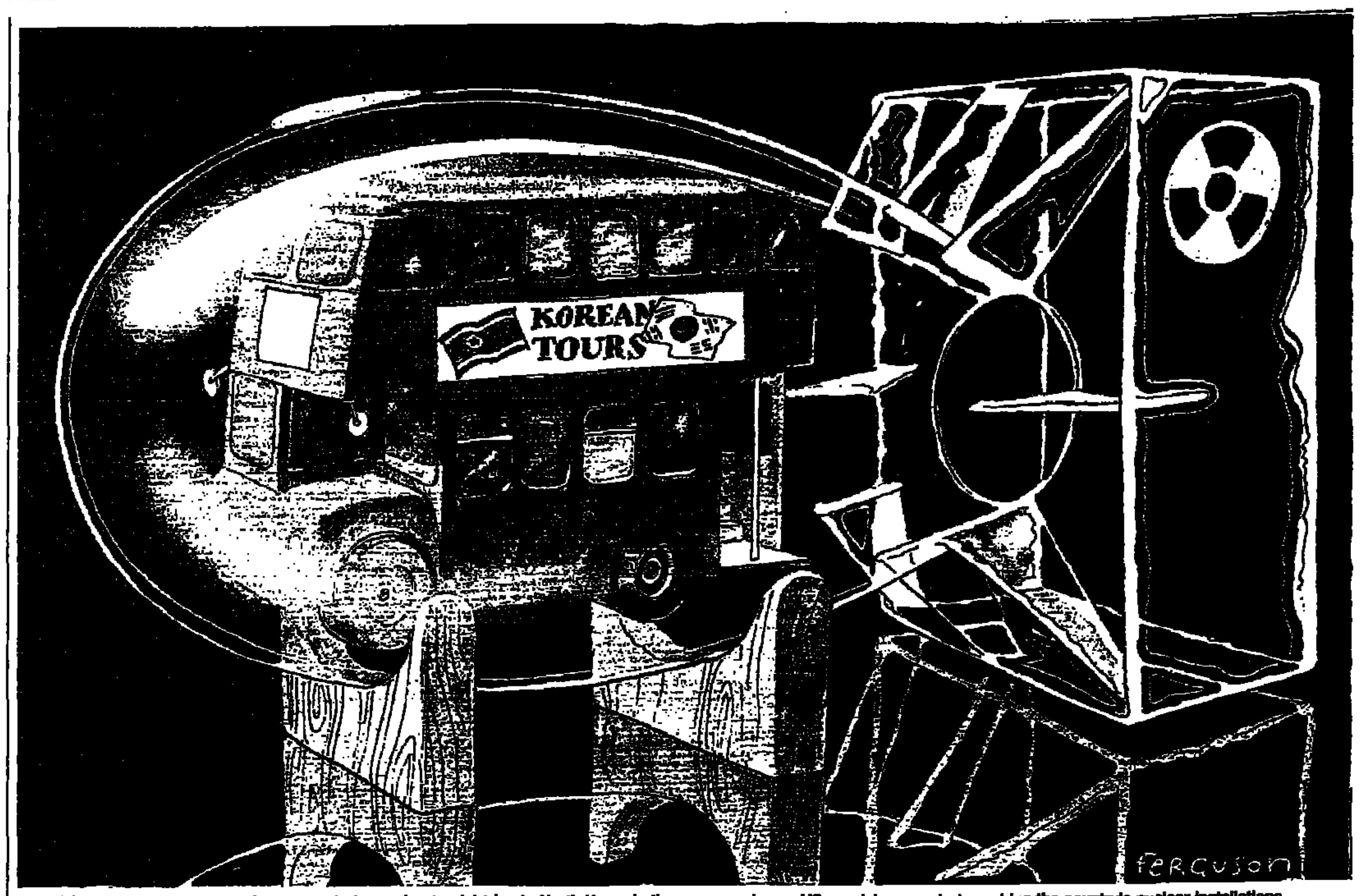
Asia-Pacific Economic Co-operation (Apec) is scheduled to hold an economic leaders' meeting in Kuala Lumpur, following its ministerial meeting at the weekend. Jiang Zemin, the Chinese president, is expected to make an "important" speech. The meeting is expected to confirm Russia, Peru and Vietnam as new members.

Chemical reactions

The Organisation for Prohibition of Chemical Weapons holds its third intergovernmental conference (to November 20) in The Hague. Ministers of countries that have ratified a ban on chemical weapons will be considering plans to destroy stockpiles.

Aid clampdown

Industry ministers meet to discuss a new report on European competitiveness and alterations to state aid rules. The Austrian presidency will be hoping to win support for a regulation that will give the Commission power to recover illegal state aid more swiftly.



Hyundai, the South Korean conglomerate, starts running tourist trips to North Korea in the same week as a US special envoy starts probing the country's nuclear installations

Holidays

Iran, Jordan*, Kuwait*, Tunisia, Palestinian Authority.

FT Survey

China.

TUESDAY 17

FOMC meeting

Members of the Federal Reserve's Open Market Committee gather for a scheduled meeting.

High impact

The Earth is expected to enter the largest meteor storm for 33 years, which may have a dramatic effect on the 500 or so telecommunications satellites in orbit.

Le Pen appeal

A Versailles court is due to rule on the appeal by Jean-Marie Le Pen, leader of the French right-wing National Front party, against a bar on his fighting the next European elections.

Holidays

Iran, Jordan*, Azerbaijan, Indonesia.

FT Survey

North American Business Locations.

WEDNESDAY 18

New speaker

The US House of Representatives is due to elect a new speaker in the wake of the resignation of Newt Gingrich. Bob Livingston, the Republican chairman of the House appropriations committee, appears likely to be the only candidate.

Collector's gem

Christie's, the auction house, is due to auction in Geneva a diamond and ruby necklace designed and created for the wedding in 1874 of Tsar Alexander II's only daughter, Marie Alexandrovna, to the second son of Britain's Queen Victoria, Alfred.

Northern mission

Hyundai, the South Korean conglomerate, begins tourist trips to economically beleaguered communist North Korea. Preference for the first journeys has gone to older citizens who have not seen their home towns in the north since the country was divided in the early 1950s. Hyundai plans to eventually set up an industrial base in the north.

Layer on layer

States party to the Montreal protocol on protecting the ozone layer meet in Cairo (to November 24) to discuss what further action is needed to repair the destruction of atmospheric ozone. Though 80 per cent of ozone-depleting chemicals have already been phased out, largely due to action by industrialised countries, a full recovery of the ozone layer depends on developing countries playing their part. The meeting will also discuss smuggling of chlorofluorocarbons (CFCs), the main ozone-gobbler, and controls on new ozone-eating substances.

Keep on trucking

The International Road Transport Union (IRU) celebrates its 50th anniversary today and tomorrow in Geneva. Now with a membership of 160 national associations of road transport operators, the IRU was founded in Geneva in the aftermath of the second world war to promote the free circulation of people and goods and the opening-up of borders to coaches and trucks.

Holidays

Morocco, Oman, Germany, Latvia.

FT Survey

FT Guide to Telecommunications.

THURSDAY 19

Nuclear talks

Strobe Talbot, US deputy secretary of state, is scheduled to meet Jaswant Singh, the Indian prime minister's special envoy, in Rome for discussions about nuclear issues. It will be the first such meeting between the two countries since India carried out nuclear weapons tests in May.

Questions for Clinton

Bill Clinton, US president, is scheduled to stop in Tokyo after attending an Asia-Pacific Economic Co-operation meeting in Malaysia. At a summit meeting with Keizo Obuchi, Japan's prime minister, he will discuss issues including Japan's planned tax cuts, financial system reform measures, and security issues in northeast Asia. He will also answer the questions of a group of about 100 Japanese citizens aged 20 to 50 in a meeting to be televised later in the evening. He travels on to South Korea on Friday.

Holiday

Oman.

FT Survey

The Business of Travel.

FRIDAY 20

High hopes

Richard Branson, the British businessman, and US adventurer Steve Fossett are poised to begin a fresh

attempt in Marakkesh to make the first round-the-world balloon flight some time after November 20.

Space launch

The first module of a new international space station is scheduled to be launched from the Baikonur cosmodrome in Kazakhstan.

Holiday

Mexico.

FT Survey

FT Director.

SATURDAY 21

Algeria task force

World Bank and International Monetary Fund officials, including IMF chairman Michel Camdessus, visit Algiers to discuss Algeria's economic reforms and heavy debt burden. Algeria's total foreign debt is estimated at $31bn.

FT Survey

FT Guide to Tax Efficient Savings.

SUNDAY 22

Yeltsin meets Jiang

Jiang Zemin, the Chinese president, is scheduled to visit Moscow for the sixth summit between China and Russia and the first informal meeting with Boris Yeltsin, the Russian president.

Holiday

Lebanon.

*Dependent on sighting of the moon.

Compiled by Roger Beale
Fax 44 171 873 3196

ECONOMIC DIARY

Other economic news

Monday: US industrial production figures for October are likely to show a slowdown in the pace of expansion to an annual rate of around 2 per cent.
Tuesday: US consumer price inflation is likely to be tame, with the monthly increase in core prices expected to be stable.
In the UK, the figures for government spending and borrowing are released, along with official retail prices data. The consensus is for underlying inflation in October to have remained at 2.5 per cent.
Wednesday: The US trade deficit for September might be expected to improve slightly, in the wake of the previous month's largest ever nominal trade deficit. But the consensus is for a balance of payments deficit of $16bn.
Thursday: Sweden's monthly NIER business survey should reflect the recent fall in export orders and other surveys.
Friday: Germany's Ifo business climate index is likely to be hurt by the recent fall of the US dollar, pulling down business export confidence.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Sep industrial production		2.5%
Nov 16	Japan	Sep shipments		3.2%
	Japan	Oct Tokyo department store sales**		-5.4%
	Canada	Sep Motor vehicles sales*	4.5%	-1.2%
	US	Oct industrial production	0.2%	-0.3%
	US	Oct capacity utilisation	81.0%	81.1%
	Japan	Nov WPI (first 10 days)		-0.5%
Tues	Japan	Nov BoJ monthly economic report		N/A
Nov 17	UK	Oct RPI*	-0.1%	0.4%
	UK	Oct RPI**	3.0%	3.2%
	UK	Oct RPIX**	2.5%	2.5%
	UK	Oct pub' sector net cash requirement	-£6.6bn	£1.6bn
	US	Oct CPI ex food & energy	0.2%	0.2%
	US	Oct CPI	0.2%	UNCH
	US	Sept business inventories	0.4%	0.3%
	US	BTM-Schoders 14 Nov		0.7%
	US	Redbook 14 Nov		0.5%
	Japan	Oct money supply (M2 + CD)**	3.8%	3.9%
Wed	UK	Oct retail sales*	-0.1%	-0.4%
Nov 18	UK	Oct retail sales**	1.7%	3.7%
	US	Sept trade, goods & services	-$16.0bn	-$16.8bn
	US	Sept goods & services export (BOP)	$75.0bn	$74.8bn
	US	Sept goods & services import (BOP)	$91.5bn	$91.6bn
	US	Oct export price index	-0.3%	-0.5%
	US	Oct import price index	-0.2%	-0.1%
	Japan	Oct trade balance (customs cleared)	Y1,380bn	Y1,110bn
Thurs	Australia	Third-quarter company profits	0.0%	2.8%
Nov 19	Australia	Third-quarter AWOTE (final)	1.7%	0.6%
	Germany	Oct Ifo west business climate index	93.8	94.0
	Germany	Oct Ifo west balance format		-7.0
	Canada	Oct CPI*	0.1%	-0.2%
	Canada	Oct CPI**	0.8%	0.7%
	Canada	October CPI Ex food & energy**	1.3%	1.4%
	US	Oct housing starts	1.58m	1.58m
	US	Oct building permits		1.55m
	US	Initial claims 14 Nov	325k	321k
	US	State benefits 7 Nov		2,215k
	Canada	Sept wholesale trade	0.4%	0.2%
	US	M2 Week ended 9 Nov	-$4.0bn	$2.9bn
Fri	France	Sep trade balance	FFr12.8bn	FFr12.85bn
Nov 20	France	Sep industrial production	0.3%	-0.3%
	France	Sept ex-energy*	-0.2%	0.3%
	UK	Third-quarter provisional GDP†	0.4%	0.5%
	UK	Third quarter provisional GDP**	2.4%	2.5%
	Canada	Sep Retail Sales*	0.7%	-0.2%
During the week...				
	Germany	Oct WPI*	-0.5%	-0.7%
	Germany	Oct WPI**	-4.2%	-4.2%
	Germany	Sept Capital Account Final DEMB		-4.8BR
	Germany	Oct M3 from Q4 '97 base	5.0%	4.9%

*month on month, **year on year †quarter on quarter

Statistics, courtesy Standard & Poor's MMS.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 15.11.98 — Final Prices for Trading on 16.10.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	9.37	9.50	9.50	0.00
0100	17.00	9.39	9.39	0.00
0130	20.00	9.50	9.50	0.00
0200	20.00	14.00	14.26	1.21
0230	12.12	14.00	14.26	1.21
0300	12.12	14.00	14.26	1.21
0330	12.12	11.35	11.61	1.21
0400	9.37	12.23	12.49	1.21
0430	9.35	11.18	11.44	1.21
0500	9.35	11.18	11.44	1.21
0530	10.73	11.32	11.58	1.21
0600	9.37	9.43	9.43	0.00
0630	9.37	11.32	11.58	1.21
0700	9.37	11.55	11.81	1.21
0730	9.36	11.55	11.81	1.21
0800	9.36	11.55	11.81	1.21
0830	9.36	9.45	9.45	0.00
0900	9.37	9.40	9.40	0.00
0930	10.76	11.55	11.81	1.21
1000	10.80	11.55	11.81	1.21
1030	14.79	16.72	16.98	1.21
1100	14.79	16.72	16.98	1.21
1130	14.79	18.86	19.12	1.21
1200	14.79	20.00	20.26	1.21
1230	14.79	20.00	20.26	1.21
1300	16.18	20.00	20.26	1.21
1330	16.18	20.00	20.26	1.21
1400	14.79	16.72	16.98	1.21
1430	14.79	13.17	13.43	1.21
1500	14.79	15.21	15.47	1.21
1530	14.79	15.21	15.47	1.21
1600	16.18	15.21	15.47	1.21
1630	17.34	15.21	15.47	1.21
1700	27.90	16.34	16.60	1.21
1730	27.90	16.34	16.60	1.21
1800	27.90	16.54	16.80	1.21
1830	22.58	16.71	16.97	1.21
1900	27.90	51.07	51.33	1.21
1930	20.98	51.07	51.33	1.21
2000	17.69	51.07	51.33	1.21
2030	17.34	20.46	20.72	1.21
2100	17.34	20.46	20.72	1.21
2130	17.34	17.90	18.16	1.21
2200	16.18	17.40	17.66	1.21
2230	17.34	16.34	16.60	1.21
2300	14.79	16.54	16.80	1.21
2330	11.88	16.34	16.60	1.21
2400	11.88	13.15	13.41	1.21

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.89/MWh becomes 1.689p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6780 between 8.30am and 5.15pm Monday to Friday.
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Provisional Price for Trading on 16.11.98 — Final Prices for Trading on 15.10.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	11.88	9.60	9.60	0.00
0100	11.88	9.55	9.55	0.00
0130	11.88	12.56	12.60	1.13
0200	19.01	12.56	12.60	1.13
0230	20.45	17.00	17.04	1.13
0300	20.45	17.00	17.04	1.13
0330	20.45	12.56	12.60	1.13
0400	20.45	11.55	11.59	1.13
0430	20.45	11.55	11.59	1.13
0500	20.45	12.56	12.60	1.13
0530	9.36	15.85	15.89	1.13
0600	9.36	15.85	15.89	1.13
0630	9.37	14.88	14.92	1.13
0700	9.38	15.85	15.89	1.13
0730	20.93	32.96	33.02	1.13
0800	28.64	40.89	40.99	1.13
0830	26.72	41.02	41.15	1.13
0900	43.99	60.63	60.82	1.13
0930	49.08	36.05	36.27	1.13
1000	64.04	36.11	36.34	1.13
1030	64.05	33.52	33.75	1.13
1100	44.04	29.84	30.05	1.13
1130	44.03	29.78	29.97	1.13
1200	44.01	29.72	29.89	1.13
1230	31.80	29.61	29.75	1.13
1300	33.78	29.50	29.61	1.13
1330	33.76	27.78	27.86	1.13
1400	33.76	24.74	24.80	1.13
1430	33.76	24.73	24.79	1.13
1500	33.76	24.72	24.78	1.13
1530	33.77	24.72	24.78	1.13
1600	33.80	10.95	10.95	0.00
1630	45.98	23.74	23.82	1.13
1700	100.60	23.84	23.94	1.13
1730	113.17	33.99	34.12	1.13
1800	105.46	37.58	37.99	1.13
1830	73.82	41.27	42.16	1.13
1900	53.38	63.28	64.18	1.13
1930	39.82	62.45	63.15	1.13
2000	36.48	35.24	35.45	1.13
2030	35.89	36.53	36.60	1.13
2100	32.95	25.43	25.47	1.13
2130	32.94	25.43	25.47	1.13
2200	27.94	22.43	22.47	1.13
2230	20.06	15.50	15.54	1.13
2300	20.06	15.50	15.54	1.13
2330	9.36	15.50	15.54	1.13
2400	9.35	14.75	14.79	1.13

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MONDAY PRIZE CROSSWORD

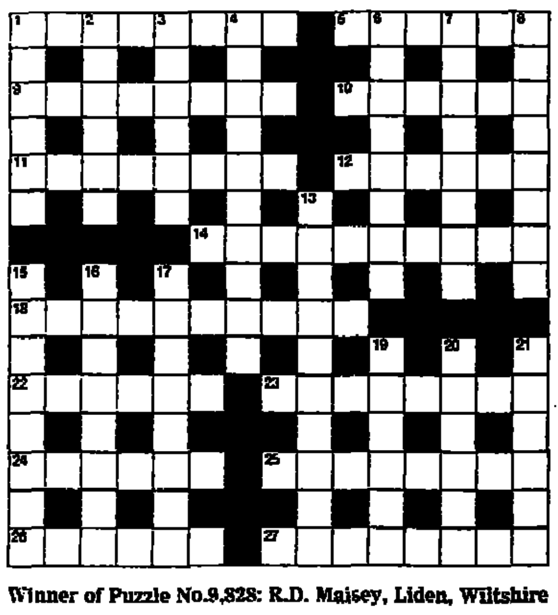
No.9,840 Set by GRIFFIN

ACROSS

1, 5 You'll hear it said they're too in love (8,6)
9 Goes bang, damaging animal food containers (8)
10 Recompense retiring artist (6)
11 Vastness of NY if travelling around in it (8)
12 Clergyman returns rubbish to fool (6)
14 People jump on one passenger vehicle taking home staff (10)
18 Venomous creature ruined diarist's plant (10)
22 Tongue of stout shoe (6)
23 Aubergine seed factory (8)
24 Leaves about a quarter and survives (6)
25 Accountant's a bright star and an amorous man (8)
26 Firm dates arranged last July (6)
27 Tastes some chicken joints Nina brought back in (8)

DOWN

1 Frank caught joiner with a little girl returning (6)
2 Dangerous guns a felon keeps hidden (6)
3 Pipes rubbish container on board boat! (6)
4 Sends right sort of garment (10)
6 Table salesman to ring up telephonist (8)
7 Six-footer is into plain tropical fruit (8)
8 Backed tip, so red when it goes wrong! (8)
13 Soak and prime, stirring liquidising agent (10)
15 They take risks as they're strolling after midnight (8)
16 Try to prevent it going in reverse (8)
17 Modified and now just needing two keys (8)
19 Wrench artist dropped in drive (6)
20 After Los Angeles continue to saltwater lake (6)
21 Pinches less at dances (6)



Winner of Puzzle No.9,828: R.D. Maisey, Liden, Wiltshire

A prize of a Tombow Lucca fountain pen and rollerball set, worth £125, will be awarded for the first correct solution opened. Solutions by Thursday November 26, marked Monday Crossword 9,840 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday November 30. Please allow 28 days for delivery of prizes.

Name...

Address...

Solution 9,828

```
PROMPT COMPOUND
A V A   V L P R
SHELVE BIGAPPLE
S R I H D N E S
ABSENTEE STORES
G I G A F A   E
EDGE ADMINISTER
 H I W X N I
AFTERTASTE STAR
B   I Y U T L E
OBTUSE ARCHNESS
L U H O E R P T
IGNOMINY TOBAGO
S E A U   N G R
HEDONIST RECEDE
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JOTTER PAD

هكذا من الاصل

FINANCIAL TIMES SURVEY

CHINA

MONDAY NOVEMBER 16 1998

Annual country review

Economic chill exposes threat of Asian cold

As the People's Republic prepares to celebrate its 50th anniversary, Beijing's leaders are aware that they face many challenges, writes **James Kynge**

Eventful year: President Bill Clinton had a successful summit in June/July and August brought the worst floods along the mighty Yangtze river since 1954 AP

China faces a critical year in in which it will be trying to maintain its open-door policies and its warming relations with the west despite a confluence of pressures arising from Asia's crisis and deep-seated economic problems of its own.

Beijing's leaders could reasonably have hoped for more clement conditions with which to herald the 50th anniversary of the founding of the People's Republic in 1949.

Instead, challenges looming on many fronts in 1999 threaten to divert attention from events planned to celebrate one of the most remarkable national transformations of the 20th century.

Chinese policymakers have had no illusions that one important reason for the country's growing diplomatic influence during the past two decades has been its burgeoning economic growth and the lure of its vast market.

The danger now is that a slowdown in growth and the increasing saturation of its market could disappoint China's trading partners and start to undercut achievements made in other aspects of bilateral relationships.

Strains already evident raise the possibility of a deterioration of relations with the US. David Aaron, US under secretary for commerce, warned in September that China's trade surplus with the US – which he predicted will reach $60bn this year – was becoming politically unsustainable as Beijing appeared to erect new barriers to trade and investment.

'China harbours deep suspicions that the US-Japan security alliance could be used to contain Beijing's influence'

"Ironically, our commercial relationship, which, in the past, has helped us through difficult times, threatens to become the source of increasing political friction," Mr Aaron said in Beijing.

This chill wind could set back some of the progress generated by President Bill Clinton's successful summit in June/July, but it will not overshadow the meeting's importance as the first state visit by a US president since the 1989 crackdown on student protesters in Tiananmen Square.

An agreement by the two sides to deepen their "strategic partnership", and even observe some of each other's military exercises, could prove of incalculable importance in maintaining long-term peace between the world's only superpower and Asia's rising giant.

But the way forward is fraught with tension. China harbours deep suspicions that the US-Japan security alliance – the anchor of US military involvement in Asia – could one day be used to contain Beijing's influence or, even worse, to prevent the reunification of Taiwan with the mainland.

Nevertheless, Beijing skilfully used its enhanced international stature after the summit. It canvassed support from several allies to condemn the nuclear tests this summer in South Asia, which, it points out, were started by its rival India and merely followed by its ally, Pakistan.

A sense of China's emergence as a "big power" was further underlined by a new activism in foreign policy. Jiang Zemin, the president, received a stream of foreign leaders in the autumn, including Tony Blair, the British prime minister, and Jacques Santer, president of the European Commission.

But these diplomatic strides may yet be undercut if China's economic pull weakens, and friction replaces what have generally been mutually beneficial trade relations. There are deep concerns on this front.

Officials in the US and EU say that the momentum in Beijing's 12-year-old negotiations to join the World Trade Organisation has slackened. If it does not secure entry before the next round of WTO deliberations in 2000, the terms of admission will become stiffer.

Beijing's hope of gaining entry on concessionary terms has not been served in Washington or Brussels by the country's mounting trade surpluses. Although China's stance against devaluing its currency, the renminbi, has won plaudits from many world leaders, it has cut little ice in trade negotiations.

Ji Xiaonan, a department director at the state economic and trade commission, says that China's economic fundamentals are too weak for WTO entry on current terms.

There is little cause for optimism, however, that these fundamentals may soon improve. According to official figures, gross domestic product grew at 7.2 per cent in the first nine months of the year, compared with 8.8 per cent in the whole of 1997 and 9.6 per cent in 1996.

Officials say that the 8 per cent growth target "guaranteed" this year by Zhu Rongji, the premier, can still be achieved. But many independent economists believe that the official statistics seem to overstate the real growth rate by several percentage points, making the appearance that China has achieved a "soft landing" this year somewhat illusory.

The International Monetary Fund predicts GDP growth for China this year at 5.5 per cent, a figure more in line with the forecasts of many economists and anecdotal evidence from bankers and executives doing business in China.

Whatever the exact growth rate, the problems that China faces are long term and structural. A deepening, 11-month deflationary trend caused by vast industrial stockpiles and weak consumer demand is at once the main cause and result of China's slowdown.

Poor sales have prompted many companies into fierce price wars that have slashed profit margins. Reforms to a state-owned enterprise sector of more than 300,000 companies had led to closures and mass redundancies, further dampening consumer demand. Abundant harvests have also depressed the prices of some agricultural goods, hitting the incomes and spending power of 900m people in rural China. A vicious circle of declining prices, falling corporate profits and slumping wages has developed in some parts of the country. This has prompted the government to launch a large Keynesian package to create jobs and forestall the real possibility of social unrest.

"China does not have a low-growth option," says Yukon Huang, head of the World Bank's representative office in Beijing, noting the social pressures that can arise from unemployment.

The package, launched in August, includes Rmb100bn in government infrastructure spending and Rmb100bn in lending by state banks to support the infrastructure projects. Demand for steel, power, building materials and other heavy industrial products has begun to pick up, and official headline growth figures have received a boost.

The imperative to create jobs and curb unemployment also appeared to delay reforms to state-owned enterprises (SOEs) in the latter part of the year. State banks have lately been encouraged to boost loans to some SOEs, even if their production is sometimes simply adding to a mountain of unsold inventories. This has done nothing to increase the asset quality of banks.

The danger is that if the infrastructure programme does not spark a broad-based increase in demand, current policies will merely multiply the bad debts in the banking system and nudge more SOEs toward insolvency.

Much, therefore, is riding on the success of the infrastructure programme, China's main bulwark against the intensifying centripetal forces of Asia's economic whirlpool.

As the economy falters, foreign investors have found that opportunities have narrowed. Most sectors, including power, petrochemicals, retail, real estate, building materials, steel and coal, are suffering from various degrees of overcapacity and may require little new foreign investment until growth picks up.

Recent restrictions on foreign business in the domestic telecoms, pharmaceutical, retail and insurance markets have raised questions over whether China's "open door" may be creaking closed. But officials insist that China has no intention of going back on the policy which, launched in 1978, has been largely responsible for the country's economic transformation.

Even without the new restrictions, foreign investment inflows were probably set to decline as bankers hit by Asia's crisis grew more wary of the region as a whole. Disquieting evidence of serious trouble in China's non-bank financial sector, as shown by the closure of the Guangdong International Trust and Investment Corporation in October, has also made bankers nervous.

Trade has held up quite well this year but exports in September declined 6.7 per cent, perhaps signalling tougher times to come. Imports have also declined.

These challenges have made 1998 a testing year for the technocratic government of Mr Zhu, which was appointed at the National People's Congress (parliament) in March. But it has not been a year without significant domestic successes.

A titanic, and, ultimately, triumphant, struggle against the worst floods along the mighty Yangtze river since 1954 allowed the leadership and the People's Liberation Army (PLA) to bask in the type of propaganda glow that has become rare in recent years.

A pledge to cut the central government's bureaucracy by half this year has almost been achieved, confounding sceptics who argued that the reform could prove too controversial for Mr Zhu to push through.

A nationwide campaign against rampant smuggling – directed partly at the PLA, one of the main perpetrators – has had a measurable impact. Prices of some local goods have begun to rise and seized contraband is filling wharehouses in some border ports.

And in spite of the considerable economic problems the government has faced, there has been little sign of administrative drift. Mr Zhu's decisiveness has been particularly evident in his repeated pledges not to devalue the renminbi this year.

However, there remains a possibility that the currency could be devalued next year but probably only as a last resort if the economy and exports tumble.

ECONOMY by Peter Montagnon

Beset by bicycle syndrome

China is sticking to its official forecast of 8 per cent growth this year

Economists are increasingly prone to characterise the management of China's economy as being like riding a bicycle.

With all the demands of enterprise and banking reform, not to mention the creation of jobs for the country's 1.2bn population, the economy needs to pedal fast to stay upright.

This year the worry is not only that growth is slowing too sharply, but also that no one even knows exactly how fast it actually is.

China is sticking to its official forecast of 8 per cent growth this year, which would be a modest decline on last year's 8.8 per cent, but after official data showed growth of only 7.2 per cent in the first three quarters many doubt if the target can be reached.

Moreover, there are grounds for thinking the official figures overestimate what is actually happening.

Thus industrial production during the first nine months was reported at 8 per cent while electricity output, normally a good indicator of activity, rose by only 2 per cent.

Other signs of weak demand are a 3.3 per cent year-on-year fall in consumer prices during September and a trade surplus of $35bn during the first nine months of the year.

This was mainly due to weak imports. Export growth declined to 3.9 per cent during the period compared with a 20.9 per cent increase in the *whole* of 1997.

Part of the uncertainty is that China's statistics no longer capture the true picture of activity in a changing economy which is showing widespread variations by region and sector.

Some argue that the weakness of electricity demand may reflect an intense slowdown in the more traditional industries such as steel but leaves room for continued growth in newer service sectors which use less power.

Anecdotal evidence suggests that the widespread prevalence of smuggling may have understated import demand.

Imports – and prices of some imported consumer goods – rose noticeably in the wake of the recent government crackdown on illicit trade.

Though China is clearly suffering from a slowdown, there are thus disagreements about how marked it is. Against that backdrop, the precise level of growth may not matter.

"This is an economy which is still growing at a reasonably strong rate," says Yukon Huang, head of the World Bank in Beijing. "But it has clearly slowed down compared with last year."

Even some Chinese officials hedge their bets when they consider whether the country can meet growth targets. After the disappointment of the first three quarters, a fourth quarter growth rate of more than 9 per cent would be needed to reach 8 per cent for the year as a whole.

Capacity use is very low in sectors such as steel and coal and the Asian crisis has had an effect on demand, says Ji Xiaonan, deputy director of the State Economic and Trade Commission.

But the final outcome will be "very close" to 8 per cent, even if he admits that in his personal view the target may not quite be met. That will still be a good growth rate compared with other countries, he says.

Officials are basing their hopes on a belief that the efforts to boost the economy through the injection of public money into infrastructure, especially in China's depressed hinterland, are starting to pay off.

There is some evidence that this is starting to have an effect. A recent study by Dresdner Kleinwort Benson found some tentative signs of recovery.

The fall in prices of household electrical appliances has started to slow after a steadily accelerating decline since 1996.

Output of both cement and plate glass was up quite strongly, by 15.3 and 3.5 per cent respectively, in July. In the same month fixed asset investments from the state sector rose by 23 per cent compared to July 1997.

It is too early to tell, however, whether these figures really mark a turn in the cycle or are just straws in the wind. Pessimists argue that the deflationary psychology which has dampened consumer demand runs very deep.

Across the economy as a whole bank loan growth remains very weak, even though deposits have been rising by nearly 17 per cent so far this year.

Diplomats say the government is not pushing state enterprise reform quite so hard and encouraging banks to lend selectively to state companies in an effort to mitigate the employment effects of the downturn.

Last month it banned the construction of new steel plants to limit overcapacity in that sector, but Mr Ji says it has not turned its back on the reform objective, pointing to restructuring undertaken in the cotton and chemical industries.

Yet there are still hopes that the reflationary measures undertaken by the government will start to bite increasingly between now and the end of the year. These include two series of bond issues by the government.

One, for Rmb 270bn, was designed to recapitalise commercial banks, which should allow them to clean up their balance sheets and resume lending. The other, for RMB100bn, is intended to go for infrastructure spending.

So confident is finance minister Xiang Huaicheng of the success of the infrastructure programme that he categorically rules out a repeat issue of the infrastructure bonds.

His worry, he says, is that the economy will end up overheating.

"It's easy to light a bonfire," he says. "All economic disasters in the past 50 years happened when China was overheating."

If he is right that the groundwork is now laid for a recovery next year, this would be good news for the rest of Asia, from which China is a substantial commodity importer.

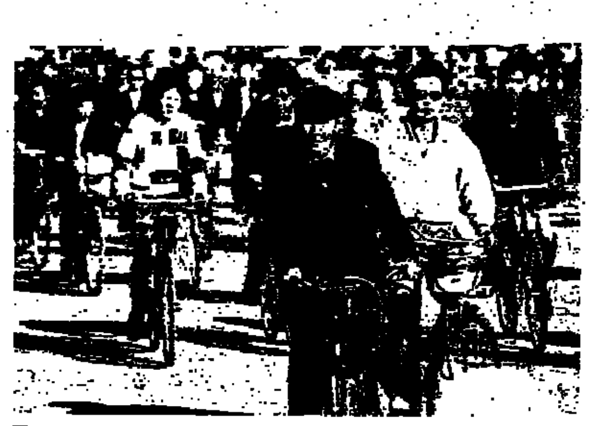
But the nagging worry persists that next year could turn out difficult too.

Not only could exports come under pressure as US demand softens, but the flow of foreign direct investment looks set to dwindle and the investment company crisis following the closure of Guangdong International Trust and Investment Company has caused borrowing conditions to tighten against China in international markets.

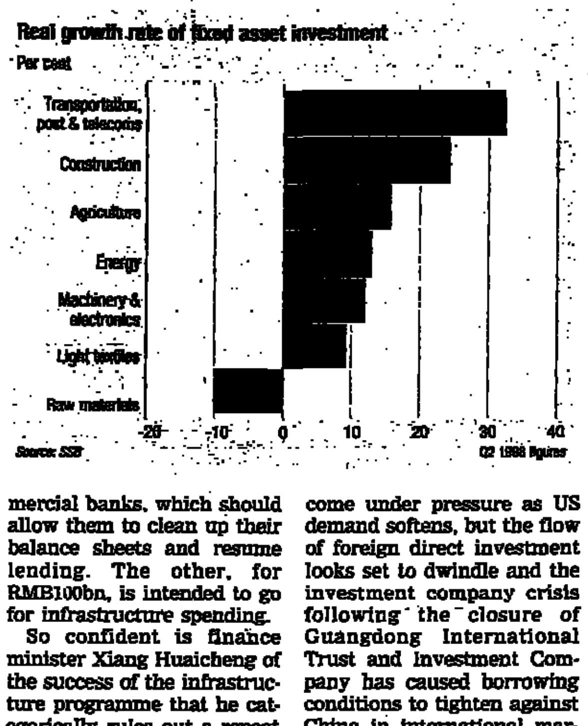
A worsening domestic financial crisis could seriously hamper the recovery, precisely because it is affecting the non-bank sector which has been a main supplier of capital to the private sector and to new investment projects.

By pulling on the levers of the command economy, China has some mechanisms to deal with this which are outside the reach of other governments.

But all the evidence suggests the problem is growing. Until it is sorted out, economic recovery will not be secure.

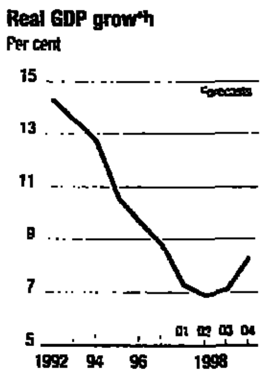

The economy needs to pedal at speed to stay upright Sarah Murray

Real growth rate of fixed asset investment
Per cent



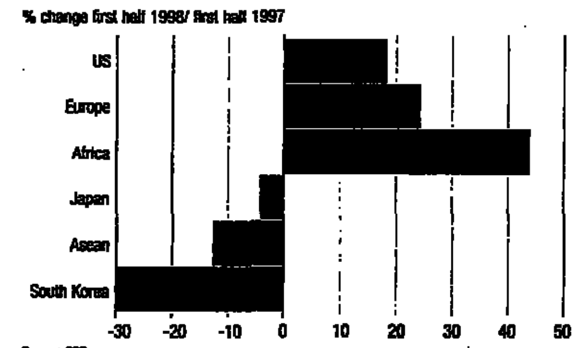
Source: SSB Q2 1998 figures

Real GDP growth
Per cent



Sources: SSB; CT and CEAF forecasts

Nominal change in exports
% change first half 1998/ first half 1997



Source: SSB

FOREIGN BANKS by James Harding

Wake-up call to outsiders

The perception of China risk has worsened amid symptoms of the Asian disease

China's claims that it could stand apart from the Asian crisis and keep its economy insulated from the regional chill have counted for less and less with foreign bankers this year.

The retreat of Japanese lenders, who have withdrawn from China to tend troubles at home, and the hesitancy of western banks alarmed by the risks of lending in other emerging markets have created a liquidity squeeze that has exposed structural problems among Chinese borrowers.

At the same time Beijing has moved to clean out the rot in many of its non-bank financial institutions. But, in the present jittery financial environment, this rectification has served to heighten the concern of international creditors about the safety of lending in China.

Foreign banks, caught between anxious credit committees back at head office and an activist government in Beijing, have adopted a defensive crouch. The costs of capital in China have risen, new lending is scarce and agreements to roll over loans have been cancelled.

In short, the perception of China risk has worsened – and China has started to show some of the symptoms of the Asian disease.

Dong Tao, analyst at Crédit Suisse First Boston in Hong Kong, says: "In the past we have said that China would not be affected by the Asian crisis.

"The renminbi is closed on the capital account. But now we have seen there is one potential form of transmission of the Asian malaise, and that is through foreign credit."

The closure last month of Guangdong International Trust and Investment Corporation (Gitic), a prominent investment company owned by the provincial government of southern China's prosperous province of Guangdong, sent a shudder through foreign banks.

International banks had lent more than $2bn to Gitic, which as a state-backed company was thought too important to be allowed to fail, and roughly another $10bn to similar international trust and investment corporations, the Itics.

In recent weeks other trust and investment companies have defaulted on overseas loans, as foreign banks have called in credit fearing that Gitic might not be the last of China's 240 Itics to be shut down.

International ratings agencies have been falling over each other to downgrade the credit ratings for the trust and investment companies, which have been some of China's biggest borrowers overseas.

The Gitic closure, therefore, has served as a wake-up call to foreign banks and prompted a reassessment of credit risk.

Wang Xuebing, president of the Bank of China, has noted a tightening of foreign credit in the immediate aftermath of the Gitic shutdown but says in the long term the closure should serve to instill discipline among financial institutions, both Chinese and foreign.

"The closure of Gitic shows the Chinese government's determination to enhance regulation and ensure stability in the financial system," he says. But he adds: "Foreigners should learn some lessons."

The troubles in the non-bank financial sector have certainly focused foreign minds, overturning a couple of well-entrenched assumptions. One is that companies backed by provincial and municipal governments would not be allowed to fail and therefore represented quasi-sovereign risk.

Another is that China will bail out foreign institutions to protect its reputation. In fact, officials in Beijing have relished the chance to show reckless foreign lenders that they have learnt the moral hazard lesson of doing so.

Other Chinese government initiatives have further served to aggravate a foreign banking community made irritable by the concern over its bread-and-butter lending business.

Moves to stiffen enforcement of foreign exchange controls have started to delay payments on letters of credit and disrupt many banks' trade finance operations. The implementation of a requirement to see customs documentation to prove that goods covered by a letter of credit actually arrived has slowed the process.

In a number of cases Chinese courts have issued injunctions stopping payment on letters of credit while authorities investigate alleged fraudulent import documents or while local companies prove unable or unwilling to pay for goods they claim do not meet the terms of sale.

The liberalisation of the banking sector to allow more foreign institutions to do local currency business has moved on greatly in form, but less so in substance.

Another raft of banks has been approved to start renminbi operations in Shanghai and the first banks [illegible] being allowed to provide similar services in Shenzhen, the southern border town that neighbours Hong Kong.

But the banks still complain that the terms of the licences are so restrictive that little, if any, profitable business can be done in local currency.

Still, the most profound changes to foreign bankers' operations were not perhaps governed this year as much by conditions in China as by confidence abroad.

If Beijing's well-intentioned efforts to clean up the Itics has rattled foreign banks, the reordering of the international banking business in China predates Gitic's closure. In fact, it contributed to it.

Gitic was shut down when it proved unable to pay its maturing debts, a liquidity problem that owed much to the decision by Japanese bankers to reduce their overseas lending to remedy overstretched balance sheets at home.

Chris Tibbs, head of corporate finance at Citibank in Shanghai, says: "Over the past 12 months you have seen the disappearance of the Japanese banks from the syndicated loan market in Asia. If you recall that the Japanese banks used to take 30 per cent of new lending, it is clear there is going to be a shortage of liquidity."

FINANCIAL REFORMS by James Harding

Tighter controls increase the pain

Financial institutions have had to face unprecedented reforms this year

In the past year the Asian financial crisis has claimed political scalps. What started as a banking crisis has not just damaged national economies but brought to an end the political lives of prime ministers in Thailand and Japan as well as the presidents of South Korea and Indonesia.

The message has not been lost on the leaders of China. "The Asian financial crisis has offered us a useful lesson," says Xiang Huaicheng, the Chinese finance minister. "We did not realise before how serious a problem bad loans could be."

The perceived threat that the country's troubled financial sector poses, not just to growth but ultimately to the Communist Party's prospects in China, help to explain what has been an unprecedented year of activism in reform of Chinese financial institutions.

For the first time in China's modern history Beijing presided over the closure of a bank, the Hainan Development Bank.

Last month Guangdong International Trust and Investment Corporation (Gitic), the fund-raising arm of the provincial government of southern China's prosperous province of Guangdong, was closed.

Securities firms, too, have come under closer scrutiny. An investigation into one of China's largest stock brokerages, J&A Securities, unearthed systematic fraud that has resulted in a criminal investigation into the senior management and a government-engineered restructuring.

By taking decisive action against high-profile institutions, China has sought to stand apart from Asian neighbours where a mixture of political paralysis and self-interested neglect has let cronyism and incompetence fester in the financial sector with disastrous consequences.

"China has seen how financial institutions can lose public trust, so they want to be pre-emptive," says Steve Xu, analyst at Standard Chartered in Hong Kong.

Tougher regulation has been accompanied by tightening of supervision. The People's Bank of China, the central bank, is in the throes of a restructuring which trims its responsibilities and should extricate it from some of the provincial political ties that have made it difficult for officials to blow the whistle on corruption.

The banking sector will still answer to the central bank, which will operate a regional network along the lines of the US Federal Reserve under the authority of the Beijing headquarters.

Supervision of the insurance sector has been farmed out to a new organisation and the securities industry will be overseen by the China Securities Regulatory Commission.

Zhou Zhengqing, the commission's chairman, says: "Premier Zhu Rongji gave me a clear instruction. Unless firms comply with the laws and regulations and operate in a standardised way, we cannot expect the securities market to have a stable development."

But, for all Beijing's reformist zeal, there are some sceptics who point to the size of the problems in China's financial sector and suggest that the closure of a handful of crippled financial institutions and the tightening of supervisory control may not be enough.

The weaknesses in China's banking system dwarf the problems in much of the rest of Asia. Foreign economists reckon the country's big four banks, which account for roughly 90 per cent of the banking business in China and run 150,000 branches employing 2m people, are technically insolvent.

Even officials, who seek to put the best possible gloss on the situation, say problem loans account for 20 per cent of total assets.

Beneath the main state-owned commercial banks, there is a hierarchy of financial institutions with troubles of their own.

There are commercial banks, which serve as a source of credit for economic development as well as a spur to competition for the main state-owned commercial banks.

They do not have the direct government backing that bolsters the "big four", and as a result there is probably a keener sense of profitability in the commercial institutions, but also a perceived risk.

There are also policy banks, the government's lending institutions, that may have the solidity of central government backing but their long-term future in a developing free market is not clear.

Below them there are the Itics, which have amassed foreign debts in excess of $10bn and face increasing difficulties meeting maturing liabilities.

And shakier still are the thousands of credit co-operatives across the country.

Moody's, the credit rating agency, said in a report this year: "China has long had, by most measures, by far the weakest banking system among major Asian countries."

It is tempting, therefore, to assume that China is on the brink of a financial crisis that could have calamitous implications for the economy, social order and, ultimately, the system of government.

But this would be simplistic. Parallels with other Asian countries are not easy to draw, partly because the underpinnings of Beijing's authority through the party, the government bureaucracy and the army are different from its neighbours and partly because there are degrees of rot in the financial services industry.

The problems in China's financial sector may eventually unravel into a banking crisis. But as yet the reform of Chinese financial institutions looks likely to cause a slow-burning pain rather than a conflagration.

Piecemeal closures, *ad hoc* recapitalisation programmes and greater stringency on new lending promise to raise foreign perception of the risks of lending, increase the costs of financial sector clean-up to the government, constrict the channels of credit to entrepreneurial businesses and act as a drag on already flagging growth in the real economy.


Zhu Rongji: clear instruction

The closure of Gitic has shown that all participants in the financial sector, including foreign investors, may have to carry some of the costs of reform. Gitic's international creditors, who are owed more than $3bn, are waiting to see how much will be repaid.

The costs of recapitalisation are also substantial for the government, which issued an RMB270bn bond this year to help the banks. China has one of the lowest debt-to-GDP ratios in Asia, but the government knows the moral hazard risks of recapitalising without reforming the management and personnel at the banks.

Mr Xiang at the ministry of finance says: "China's financial system cannot become mature without the development of real management talent. But this will take a long time and it may be painful."

The pain will be felt keenly by the four banks, where hundreds of thousands of staff will have to go.

FOREIGN DIRECT INVESTMENT by Stephen Fidler

Flow of funds from abroad expected to slacken

Weakeness in Asia is one reason why emphasis is now being placed on foreign investment from Europe and the US

China was the second most important destination for foreign direct investment in the world last year, after the US and ahead of Britain.

Investment from abroad to build factories and other productive assets in China rose to $45bn, according to Chinese statistics.

For the first eight months of this year the figures show new investment coming in at the same rate as in 1997. New investment announcements have risen by 6 per cent over last year, a figure swollen by some large projects such as a $4.5bn petrochemicals investment by Shell.

However, several factors lead some observers to expect a decline.

The first is the economic condition of Asia. That region has consistently accounted for more than 70 per cent of FDI in China, though the percentage is probably exaggerated by western companies investing through Hong Kong.

Some of the Hong Kong figure also represents investment by mainland Chinese, seeking to take advantage of greater freedom allowed to foreign investors, although Chinese analysts say such investment, always a modest share of the total, is falling.

Asia's economic weakness is already having some modest effects on FDI and some observers expect the impact to grow. Ma Yu, a research fellow at the Chinese Academy of International Trade and Economic Co-operation, part of the foreign trade ministry, says some projects have already been put on hold, particularly by Korean and Japanese investors.

Weakness in Asia is one reason why China is now emphasising foreign investment from Europe and the US, particularly in five more capital-intensive sectors – electronics, petrochemicals, machinery, vehicle manufacture and building materials.

Another is that investment from these extra-regional sources is less likely to be directed at China's overheated construction sector.

A second linked reason is that Asian devaluations have prompted expectations that China may follow suit. This has been repeatedly denied by Beijing as a possibility, at least in the near term.

But, to the extent that the expectation of devaluation continues, foreign investors may defer capital spending where possible to avoid the risk of a currency loss.

Third, a retreat by international banks from exposure to "emerging" economies worldwide is likely to make financing some direct investment more problematic, since many foreign companies prefer not to use their own balance sheets to finance projects.

Some bankers say that nervousness about lending to China has been increased by the financial problems of some of China's international trust and investment companies, which have borrowed more than $10bn from foreign banks.

Fourth, in some sectors existing and would-be investors have been encountering unexpected obstacles which may deter other investors. Foreign investors were unsettled by a tax on capital imports announced in April, 1996, but scrapped last year.

In some sectors foreign projects are intensifying the pressures on state enterprises, many of which are already in deep financial difficulty. At a time of growing concern about unemployment, some investors have inferred that they are the victims of successful lobbying efforts by domestic companies.

Mr Ma says such problems arise not from a government that is becoming more hostile to foreign investment but out of isolated decisions taken by separate government departments.

One such decision concerns foreign pharmaceutical companies in China, which complain that the government has arbitrarily changed the rules affecting their operations.

They have been operating in China selling at market prices while state-owned enterprises continued to be subject to price fixing. Now they too must abide by government set prices.

Investors in telecommunications and retail ventures have also encountered difficulties.

Zheng Xinli, vice-minister of the State Development Planning Commission, says the pharmaceuticals decision was taken because of the rising cost of medical care.

Doctors "like to prescribe new drugs randomly and blindly ... and before they are fully tested," he says. However, he insists: "China has not changed its policy towards the use of foreign investment."

Mr Ma argues that China could make it a lot easier for foreign investors to buy state-owned enterprises. Another important step would be to streamline the approval system.

"Any investment of $30m or more has to go to central government for approval," he says. "This approval process can take two years.

"Many companies just say: 'Forget it, we are not going through this slow and difficult process.' If we could change that it would be a big improvement for foreign investors."

Officials say changes may be on the cards, although whether Beijing would be ready to cede this authority is an open question. Mr Zheng says: "We are still in the middle of studying our policy towards the approval of FDI in China."

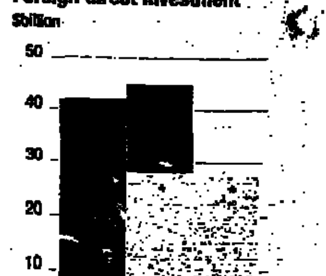
He says a recommendation has been sent to the State Council which argues in favour of giving local governments more say in approvals and leaving only the biggest projects for approval by Beijing.

Another issue, says Mr Ma, is the spread of FDI. Since China began its opening to the outside world nearly two decades ago, only about 12 per cent of the $350bn of FDI has been directed to the inland provinces.

"There is nothing really to encourage them to go inland," he says. "There has been a lot of talk but not much action."

A lower rate for the inland provinces would encourage investment there without a huge cost to the treasury, he argues.

Foreign direct investment
$billion



Source: Mofec *First 8 months

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THE CURRENCY by Stephen Fidler

Devaluation medicine would not be cure for problems

Leaders around the world, including Bill Clinton, have lauded China's attitude

China has won international praise over the past year for refraining from an action that even officials in Beijing argue would be of doubtful benefit to the country – devaluation.

With currency values falling across Asia, China was seen in financial capitals around the world as a firewall. If China followed the sharp currency depreciations across Asia with a devaluation of its own, it would risk setting off another round of competitive currency devaluations across the region.

Whether China would indeed come out as a beneficiary of such a process is open to question. But the Chinese leadership has milked the international benefits of its decision not to devalue for all it was worth. Leaders around the world, including President Bill Clinton, have lauded China's responsible behaviour.

This summer, when the Japanese yen weakened sharply, Beijing's hints that it was being put under pressure were seen as an important factor behind a US decision to intervene in support of the yen, notwithstanding the limited competition between Japanese and Chinese goods in world markets.

Chinese officials have argued first that it would be more difficult to force a devaluation on China than on other Asian countries. The Chinese currency is not convertible for capital account transactions, making a speculative run very difficult, and perhaps impossible, to mount.

Second, they say, a devaluation is not needed because China is still receiving significant inflows of foreign currency.

"There is no need to devalue the renminbi now," says Zheng Xinli, vice-minister at the State Development Planning Commission.

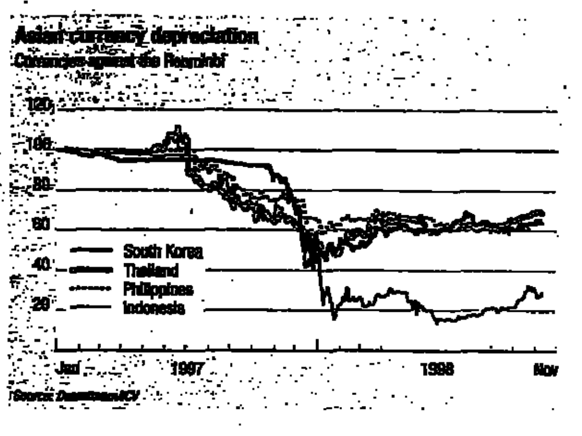
"Our total trade surplus is over US$30bn and from January to September this year we received a total foreign direct investment inflow of more than $20bn."

Moreover, China's official reserves are high, at $141bn, and steady, he says.

This suggests no currency crisis is imminent, even if capital inflows to China shrink as banks around the world retreat from risk and direct investors become more cautious.

The size of the apparent inflows, however, raises questions about why the reserves have not risen.

Part of the explanation seems to lie in the increased volumes of foreign currency held by enterprises in China. Some of these holdings are now legal, and may have been increased by the talk of devaluation.



Some of the answer may also lie in distortions in the trade statistics. Imports may be underestimated and exports exaggerated in the official data.

Import figures, at least until a recent crackdown on smuggling by the authorities, have not taken account of contraband. Exports may also have been exaggerated somewhat as enterprises seek to take advantage of rebates on sales taxes paid to exporters.

Third, officials also say that, although there is some pressure from enterprises to adjust the currency's value, a devaluation would be of questionable use in addressing the country's economic difficulties. For example, it would not work to significantly lower prices for Chinese goods abroad. Officials estimate that 52 per cent of Chinese exports are based on foreign inputs, meaning a devaluation would increase costs for domestic companies as well as pushing up the price level at home.

Export competitiveness is less driven by currency values and more by the domestic price level, financial and taxation policies, says a Chinese banker.

In any case, important markets for China in Asia remain depressed and are unlikely to respond to lower prices by buying more.

Beyond that, there is concern about the effect of a devaluation on confidence. While there is some evidence that some foreign direct investors may be slowing inflows in case a devaluation forces them to recognise currency losses, it is not clear that devaluing the currency would automatically increase flows.

Bankers say this is because foreign investors would not know whether the currency adjustment was a final or merely a first step.

Beyond that, a devaluation would also increase the burden of servicing China's foreign debt, estimated to amount to about $160bn. This should not be a problem under normal circumstances – foreign debt is a modest sum relative to GDP and interest payments are a relatively small proportion of exports.

However, figures from the Bank for International Settlements show that, of the $63.2bn that China owed at the end of last year to western and Japanese banks, $33.8bn was of a maturity of one year or less.

Moreover, to the $63.2bn must be added a further $26.9bn owed to banks in Hong Kong and other financial centres outside the BIS reporting area, for which there is no maturity breakdown.

With banks retreating from riskier loans around the world, a devaluation that affected confidence would make China's debt position more difficult to handle.

There is also another reason why the Chinese leadership will not decide lightly on a devaluation. Hong Kong's continued prosperity is viewed as being of huge importance to Beijing as a tangible demonstration that it can make the one country, two systems formula work.

Devaluation of the renminbi would jeopardise that prosperity by calling into question the sustainability of the currency board that pegs Hong Kong's currency to the US dollar.

"We really have to consider whether a weaker currency can do China any good," says a senior banker in Beijing.

FOREIGN EXCHANGE by James Harding

Cracks sealed to curb outflows

The authorities have issued more than 20 different notices and regulations, tightening the supervision of foreign exchange transactions

While the Chinese leadership has clung doggedly to its commitment not to devalue the currency this year, the government's technocrats have stepped in to stop illegal capital outflows through the cracks in China's foreign exchange controls.

"The central regulatory authorities have seen that Chinese companies are thinking there is a devaluation coming and that is why they have acted in such an aggressive manner against perceived capital flight," says Nicholas Howson, partner at law firm Paul, Weiss in Beijing.

Since mid-September, China's foreign exchange authorities have issued more than 20 different notices and regulations, tightening the supervision of forex transactions and raising the requirements for official documentation, conversion and remittance on hard currency transactions.

Taken together, says one western observer in Beijing, the measures represent "bigger road blocks at every conceivable currency conversion and remittance".

The tougher implementation of foreign exchange controls is symptomatic of the underlying concern in China about the stability of the currency, the scale of illegal flows of hard currency out of the country and hidden exposure to foreign exchange debt.

Dai Xianglong: pledged not to devalue AP

But the measures are generating problems of their own. The stringent demands on the registration and processing of foreign exchange transactions are clogging up the process of trade finance and delaying payments to commercial businesses both inside China and overseas.

The more exacting restrictions are now threatening to deter potential foreign investors, who are worried about the problems they may face in trying to remit hard currency earnings home.

"The adverse impact on trading companies, especially exporters into China, has been immediate," says Mr Howson. "But, going forward, the enhanced enforcement will also have a serious impact on investment and hard currency financing.

"The investment and finance communities have not really woken up to the implications yet, but there are now very real constraints on the liberation of foreign exchange for investment returns and debt service."

In Shanghai the general manager of a large European trading company says: "Things are getting pretty difficult. The forex controls have had a huge impact on our business. We are finding it hard to swap renminbi into foreign currency."

Another foreign-invested company in the city's free trade zone reports that it has not been able to obtain approval to remit US dollars to its parent company through a technical services agreement.

The stiffening of foreign exchange controls offers a telling comment about Chinese perceptions of the stability of their currency and concerns about infection from the Asian disease.

Zhu Rongji, the prime minister, and Dai Xianglong, the central bank governor, are understood to be committed to holding to the no-devaluation pledge for 1999 as well as 1998, not just for the sake of international economic stability but, more crucially, in the interests of China's own economy.

> **'Tougher foreign exchange controls are symptomatic of concern about the stability of the Chinese currency'**

However, Chinese enterprises and individuals have plainly had their doubts.

Wu Xiaoling, director-general of the State Administration of Foreign Exchange Control, said earlier this month: "Starting from this year the falsification of import documents for the purpose of obtaining foreign exchange ... has been on the rise."

The full extent of illegal flows of foreign currency out of China is not clear. But there has been growing circumstantial evidence to suggest that capital flight is considerable.

Despite a trade surplus of more than $30bn and nearly as much again in foreign investment inflows, the country's $141bn in foreign currency reserves have barely grown this year.

Last year, the "errors and omissions" category in China's balance of payments, which offers a clue to the sum that has slipped out of sight, was $16.9bn.

Officials and diplomats in Beijing suggest the closer scrutiny of China's foreign exchange transactions also reflects anxiety about unseen exposure to foreign currency debt.

"Zhu Rongji has been greatly influenced by the intelligence he had about the way the Korean economy came apart," says one western observer.

"He believes what was crucial was the central bank's failure to monitor offshore loans. He is worried about the scale of China's unrecorded offshore borrowings."

In contrast with a couple of years ago, when China had formally adopted convertibility on the current account and was still suggesting that it planned to move to capital account convertibility in 2000, the implementation of copious rules on foreign exchange deals seems to some people to be a step backwards.

But, officials say China has not taken a retrogressive step on foreign exchange but is simply insisting on the enforcement of long-standing regulations.

Nevertheless, in the light of the Asian crisis, the timetable for full currency convertibility has plainly slipped and closer control of foreign exchange has greater respectability.

Asked whether China has postponed its plans for a freely convertible currency on the capital account, Xiang Huaicheng, China's finance minister, says: "It is not a matter of delaying it.

"It is a matter of making sure all the conditions are mature."

FINANCIAL TIMES SURVEYS

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TAX by James Harding

Shortage of state funds is acute

This year, the pressures resulting from what has long been a shrinking fiscal base have started to cast a longer shadow

China's tax collectors would have you believe it has been a good year.

The State Administration of Taxation says industrial and commercial tax income in the first nine months of 1998 was RMB586.6bn, up 9.3 per cent from the same period last year, and in September alone it grew by 20.9 per cent year-on-year.

But the government's energetic efforts this year to reverse the long-term trend of collapsing fiscal revenues only serves to underline the anxiety that surrounds an acute shortage of state funds. Between 1978 and 1995 budgetary revenues have shrunk from 35 per cent of GDP to 11 per cent.

This year the pressures resulting from what has long been a shrinking fiscal base have started to cast a longer shadow. Tax has become a crucial ingredient in the outlook for state-owned enterprise reform, unemployment and growth as Beijing has come to rely increasingly heavily on its fiscal resources to lift a flagging economy.

Liu Zhuo, deputy director of the Research Institute of Taxation Science under the State Administration of Taxation, said earlier this year: "Ample fiscal revenue is vital to further state enterprise restructuring, relieve the pressure of re-employment, maintain the stability of agricultural production and increase exports."

The government was looking at the introduction of new taxes and ways of increasing collection as part of its drive to increase revenues, Mr Liu said in an article.

Dong Tao, analyst at Crédit Suisse First Boston, suggests the government still has the scope to spend its way out of an economic slowdown that is being caused by falling exports, slowing foreign investment and flat domestic demand but its time is limited.

"Not only is the external growth diminishing, but private demand is stagnant," he says.

"The market is focused on the currency, reforms of the state-owned enterprises and unemployment but the real question is how long the government can keep pumping money in to keep control of these things

"They have enough funds to keep China above water for a while, but if they miss this window of opportunity it is going to get very difficult for them to manoeuvre."

The reliance on fiscal measures to lift growth through infrastructure spending as well as easing the pain of mass redundancies in the state industrial sector helps to explain the bout of government activity in the tax arena this year.

Zhu Rongji made tax reform one of his government's chief priorities when he took up his job as China's prime minister in March.

Since then the tax authorities have streamlined areas of taxation, abolishing more than 200 fees and levies that were a bureaucratic burden on business and generated little revenue for central government coffers.

The government has also launched a nationwide campaign against tax evasion, which according to conservative estimates has cost the government as much as RMB30bn a year.

Beijing has also set out measures to tackle corporate tax arrears. And the government has appointed Deloitte Touche Tohmatsu, the accountancy firm, to undertake a two- year study of how to reform a tax system that is dogged by corruption and chronic inefficiency.

But, even with this year's reported increase in tax revenues, budgetary resources are proving inadequate to meet the needs of government spending, which has risen by 20 per cent on public sector infrastructure alone.

As a result Beijing has turned increasingly to bond issues. Total debt issuance for 1998 is expected to reach RMB600bn, according to economists, a substantial leap even from the previous year which had marked a new high with RMB100bn worth of government bonds issued.

Some of this year's increase is accounted for by an extraordinary RMB270bn bond to help in recapitalising the state banks. Still, in the next few years more government bonds are expected, with likely annual issuance estimated at RMB350-450bn.

Dong Tao says: "The government has to continue deficit spending, as that is the only way it can keep the growth level up."

TELECOMMUNICATIONS by James Kynge

Check on joint ventures hits foreign hopefuls

This has been a testing year for equipment suppliers and telecoms service companies striving for access to consumers

Telecommunications stand out as an area in which the promise of the China market has materialised with surprising rapidity.

The industry therefore makes an interesting study for the many foreign investors and salespeople who remain caught between great expectations and lacklustre results.

Not only is China the world's fastest growing telecoms market, it has recently also become in absolute terms the third largest mobile telephony market and the second largest for fixed line services. In pagers it leads the world by a considerable margin, with more than 60m subscribers.

Penetration rates remain low. The country's 104m fixed line subscribers point to a rate of just less than 10 per cent by the end of the year.

But, despite spectacular opportunities, this has been a testing year for foreign equipment suppliers and telecoms service companies striving for access to consumers.

One shock to aspirations came in September after news emerged that an internal government document was recommending the banning of a so-called "Chinese, Chinese, Foreign" (CCF) investment format, through which multinationals had invested about US$1.4bn.

The format, which had been endorsed publicly by many senior Chinese officials, took advantage of legal lacunae to circumvent a prohibition on foreigners holding equity stakes in telecoms service companies.

Telecoms companies such as France Télécom, Deutsche Telecom, Sprint and 43 others had entered complex agreements with China Unicom, the less influential of the two state carriers, which allowed them to derive revenue from telecoms operations through a web of management, leasing, consultancy and other fees.

But concern grew in official circles that foreigners, by stealth, were gaining far more of a foothold in China's services market than Beijing was prepared to offer in its negotiations to join the World Trade Organisation.

Wu Jichuan, the powerful minister of information industries, became increasingly concerned. He neutralised Unicom's main supporter within the ministry, Liu Jianfeng, who was moved to another job.

"China Unicom has started to use the Chinese, Chinese, Foreign method," Mr Wu said in an interview in October. "But in this method we have found many irregularities."

"To us (some of) these are a violation of development laws. At the moment, we are conducting a process of rectification ... We want to clean up these joint ventures one by one."

The minister said the main violation was that foreign partners had often derived revenue from installation fees. Such fees should be used to pay for infrastructure construction, especially in the more marginal areas of China.

Foreign companies involved in CCF ventures should derive revenue only from the operation of the network, Mr Wu said.

Telecoms consultants said that, if the main criterion of propriety was the use of installation fees, most CCF ventures were likely to have transgressed. It was not clear what the process of rectification would hold for the foreign investors, but closure and reorganisation were distinct possibilities.

Mr Wu made it clear that his ministry had assumed control over approvals for Unicom's business ventures and warned that the carrier would from now on have to "abide by the same rules" as China Telecom, the dominant state carrier. Effectively, Mr Wu has positioned himself as the main arbiter of competitive practice.

Flexing its new muscle, the ministry ordered in November that telecoms companies should "buy local" mobile telephony equipment where possible.

The order coincided with the news that two leading local manufacturers, Huawei Technologies and Datang Telecom Technology, were soon to roll out mobile telephone systems developed in-house.

Though there remain several areas in which the leading four Chinese equipment manufacturers are technologically backward – they do not yet make handsets – their competition has begun to erode the market share of foreign competitors such as Ericsson, Nokia, Alcatel, Nortel and Motorola.

The stakes are high. The mobile telephony equipment market, excluding handsets, accounts for about US$7.5bn annually, according to official statistics. There were about 20m subscribers in China in mid-1998 and the number was growing by almost 1m a month.

It was not clear if the "buy local" order meant that only equipment made by Chinese companies should be bought by China Telecom and Unicom, or if products made in China by foreign investors also counted as "local". Consultants said it was likely that the distinction was left purposely vague.

"There will be a clear preference where possible to buy from the emerging domestic champions," says Duncan Clark, founding partner of BDA China, a telecoms consultants in Beijing.

The rise of local competition in the equipment market has also contributed to falling profit margins for foreign manufacturers.

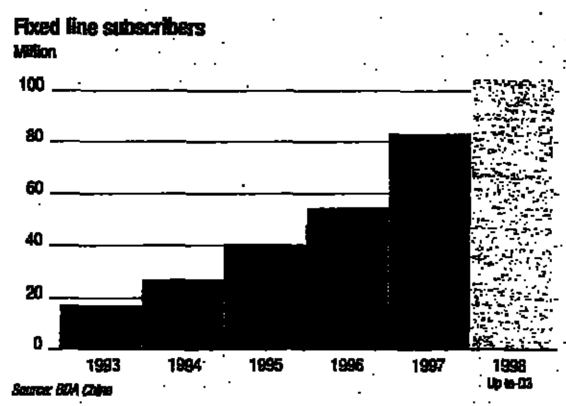
"We have more than doubled our sales every year since we were established," says Wang Pei, deputy general manager of Datang Telecom Technology Co. His company expects sales of RMB2bn this year, up from RMB1bn last year.

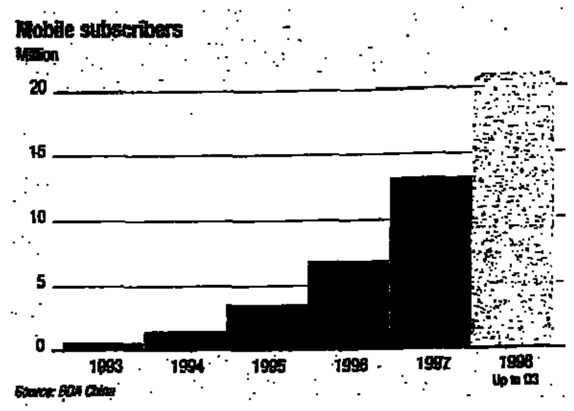
The biggest Chinese equipment supplier, Huawei, demonstrates that local Chinese competition appears to be focused on long-term strategies. Of Huawei's 8,000 staff – average age 27 – 3,200 are researchers and their R&D spending is equivalent to one quarter the value of sales.

The success of local manufacturers has contributed to a growing sense that China does not need foreign telecoms investment as much as previously thought. Estimated sales growth of 35 per cent this year means that revenues are healthy.

The successful listing of China Telecom (HK) in Hong Kong last year showed that China can raise capital easily without ceding management control.

"Telecoms ... is a good piece of meat and everyone wants to have a bite," says Zheng Xinli, deputy secretary general of the State Development Planning Commission in Beijing.





FARMING by Peter Montagnon

Countryside dilemma

The more farmers are kept happy, the more unhappy trading partners will be

On the surface life seems easy for a family of farmers sitting in the sunshine in the courtyard outside their house in hills near the southwestern city of Chongqing.

The sun is shining, crops are growing abundantly on the terraced hills and ducks are splashing happily in the nearby pond.

The underlying reality is a little different. Last year pig meat fetched more than RMB8 a kilo, says Hang Zihui. This year, thanks to a glut in supplies, the price has gone down to between RMB5 and RMB6.

Inside the ramshackle living room of her house Mrs Hang has a colour television set and a video recorder. But such luxury is possible only because her son has a job with a state-owned company in the city and her daughter works in an hotel in Shenzhen near the border with Hong Kong.

With reform of state enterprises and a downturn in business facing the hotel trade, it is suddenly not so clear whether the children will continue to manage. Mrs Hang says her daughter may have to come home.

That could mean a loss of family income and one extra mouth to feed at a time when incomes are under pressure. It is the kind of worry facing many families in rural China in the wake of the economic slowdown.

For Beijing it is also a concern. With 900m people out of China's total population of 1.2bn living in rural areas, a sense of wellbeing in the countryside is essential to national stability.

As the economy turns down, there is a fear that the countryside may have to absorb displaced workers from the cities, or at least that the cities will no longer offer employment opportunities that used to attract surplus rural labour.

All this is occurring at a time when farm incomes are growing at a rate of only around 1 per cent, below the national average.

It is thus not surprising that the government regards agriculture as a main priority. Last month a government statement following a legislative review of farm policy made clear that the sector was a vital part of overall economic policy.

"Without stability in rural areas, there will be no stability in the country," it said. "Without prosperity for farmers, there will be no prosperity for the Chinese."

But, apart from confirming the plan to allow farmers 30-year leases on their land instead of 15-year agreements as before, the statement from the ruling Communist Party's central committee was vaguely worded and contained little by way of new initiatives.

One reason, according to western economists, is that farm policy in China has a number of objectives that are not easy to reconcile.

On the one hand the government, at national and provincial level, is concerned about the need to provide enough food for the people.

Farmers must have incomes high enough to provide incentives to meet this objective. Close attention is paid to grain output and, although farmers have been tempted in recent years to diversify into more lucrative crops such as fruit and flowers, regulations limit the opportunities for doing so.

On the other hand the government has also been concerned to keep the price of food affordable to city dwellers. Two significant policy shifts this year illustrate how it is seeking to pursue these overall objectives.

The first, which has the most immediate impact, concerns distribution. Traditionally the government has sought to keep retail food prices down and farm income up by buying from farmers a proportion of their crop at guaranteed prices and then making the grain available to consumers in the cities at a lower, subsidised price.

But after bumper harvests in the past three years – this year's grain output officially is expected to come in close to last year's 494m tonnes – this system was no longer working. With silos overflowing, farmers found the government buyers unwilling to purchase much grain. As a result it was being dumped in the cities at rock-bottom prices, fuelling the deflation in China's economy.

Recently, therefore, a new policy was introduced. Now the government effectively sets a floor price by agreeing to buy all available grain at a predetermined price.

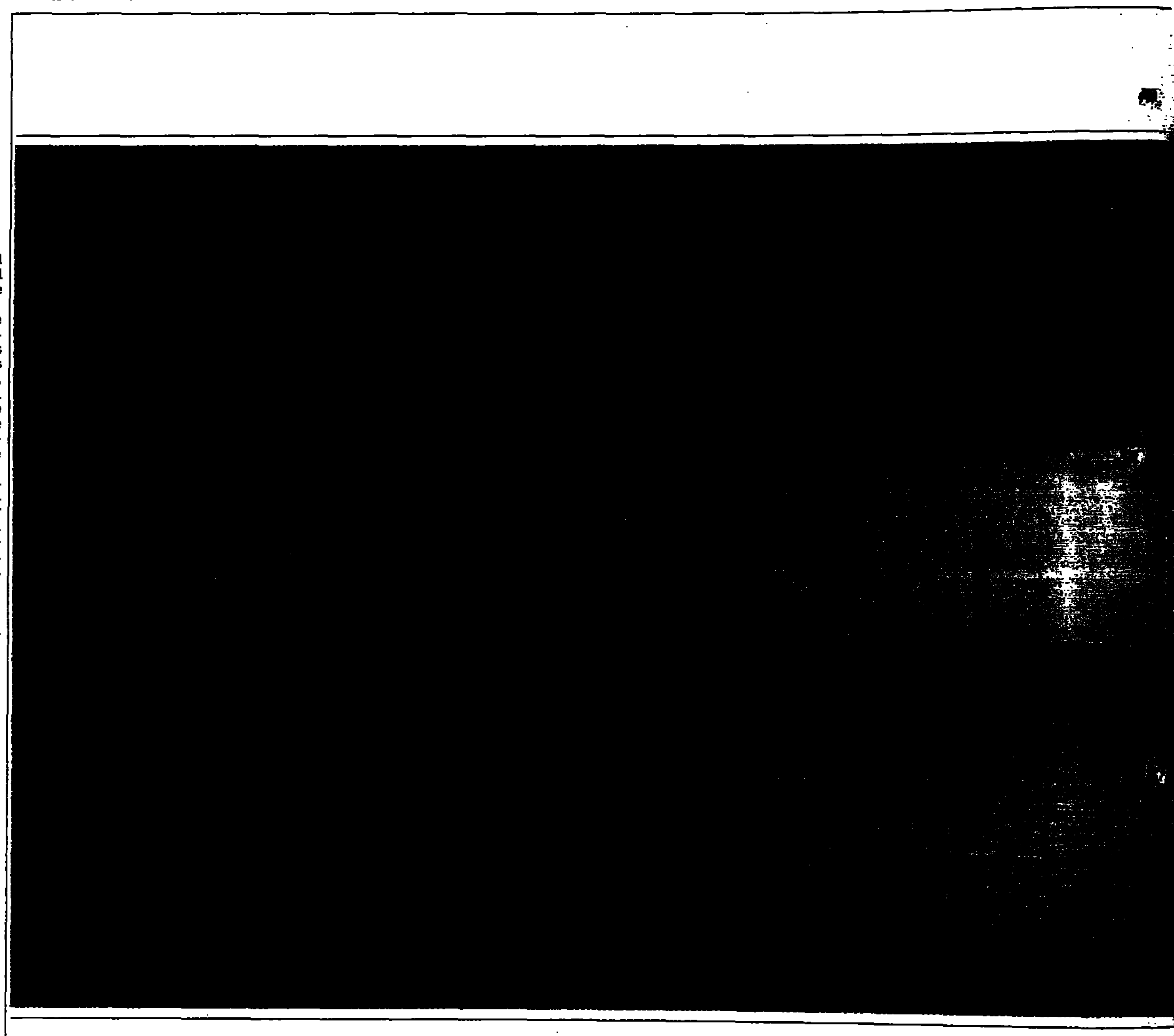
Responsibility for selling the grain on has been devolved down to provincial governors who are charged with the task of reselling it at prices that do not involve a loss. The aim is thus to reduce the burden of subsidies and to shift the benefit of government intervention away from city dwellers towards the rural areas.

An overhaul of the distribution system was made doubly necessary by recent revelations of corruption.

Last month the Chinese press reported that an investigation into grain buying by the government found that more than RMB80bn allocated for grain buying had disappeared into real estate speculation as well as the purchase of luxury items such as cars and mobile phones for officials.

How far the new arrangements will prevent such malpractice is uncertain. Western economists say it is also too early to say how the new distribution will affect prices in the long term.

The more China tries to keep its farmers happy, the more unhappy many of its trading partners are likely to be. But, as in so many other countries, the pressure to put the farmers first will almost certainly remain.



HOUSING by Peter Montagnon

Facing up to some home truths

Sunsidised housing for workers will be phased out and occupiers may buy their own homes or pay commercial rents

Of all the reforms initiated by China's prime minister Zhu Rongji, that in housing could end up having the biggest impact on the lives of ordinary Chinese as well as on the economy.

Mr Zhu announced in March that the subsidised housing traditionally made available by state sector employers to Chinese workers would be phased out. Instead, workers would be encouraged to buy their own homes from the state or at least pay a more commercial rent.

For some of China's more advanced cities such as Shanghai and Guangzhou, where the residential property market is already dominated by the private sector, this was not particularly new.

For the country as a whole, though, it meant a radical transformation of a system whereby most people pay almost nothing to live in housing that was allocated to them with their jobs.

Even in the short run, economists said, the reform could provide a badly needed boost to domestic demand as house buyers drew on their savings to embellish and equip their newly acquired properties.

Meanwhile, the change would relieve state enterprises of the burden of providing housing for their employees, while it was hoped the elimination of subsidies would free up money that could usefully be spent on infrastructure improvement.

A little more than six months later the reform is yielding fewer short-term benefits than initially expected.

While he says that housing reform should have "a big impact" on China's economic development, Yu Zhengsheng, construction minister, says it also depends on achieving the right balance between supply of affordable housing and demand.

China has been actively engaged in increasing and improving its housing stock, he says. In recent years new housing space has been increasing at a rate of some 250m square metres annually in urban areas.

In the countryside, where most Chinese live and the need for upgraded property is more acute, the increase is higher at between 600 to 700 square metres.

In the first nine months of this year residential construction in urban areas increased by 10 per cent, but demand needs to be nurtured as well as supply, says Mr Yu. "Without an increase in demand, you will see more and more vacant homes," he says.

Such a cautionary remark will make obvious sense to Beijing residents struggling to meet the average $30,000 to $40,000 cost of a new apartment in the commercial sector. On top of that will come taxes and high charges for communal maintenance and other services.

With many apartments remaining unsold even as the stock of new properties increases, prices are soft. The limited resale market and the lack of long-term mortgage finance act as a further deterrent.

Economists say there are other reasons why the reform is proceeding slowly. One is uncertainty about who will in future have rights to own land and determine its use. Another is fear among local government officials that they will be blamed for selling housing too cheaply.

As part of the complicated arrangements instituted under this year's reforms, state-owned housing is to be sold at a discount to market prices that varies, both according to quality of the building concerned and to the length of service of individual employees.

But fears of being accused of favouritism towards senior workers who have access to higher quality accommodation have made many officials nervous about rushing into a sales programme.

To ward off speculative excess, a limitation of five years has been imposed on the resale of housing bought from the state. Although some cities, including Shanghai, have softened this restriction, economists say the lack of a liquid resale market is a significant deterrent to buyers.

Not only does it discourage those that want to move upmarket. Many Chinese are already worried about committing themselves to a mortgage at a time when they fear losing their jobs in the reform of state enterprises.

Singapore-style provident funds set up by local governments, into which both employees and employers contribute, do not help much. Though individuals can draw on these funds for mortgage finance, they have little incentive to do so when money left to accumulate on their behalf can also be used to provide a pension later.

Li Yingru, housing reform director in the southwestern city of Chongqing, says the aim of housing reform is both to improve the quality of life by providing better quality housing with more living space and to bolster the construction industry.

There is a short-run cost to the government in promoting the market by providing tax exemption and land for development, but in the longer run there should be a net benefit because overall wealth and tax receipts will increase.

Chongqing, which has had a sales programme since 1994, is now trying to encourage the development of a real estate industry to make its housing market more liquid, says Mr Li.

Once that happens across the country as a whole, the economic benefits could be enormous. People would have an asset against which they could borrow to finance business activities and a whole new range of service industries including both insurance and retail mortgage companies would flourish, says Yukon Huang, China director of the World Bank.

One further problem is that land development is controlled by the municipal authorities. If zoning was deregulated, allowing people with property in city centres to sell them for commercial development, many more jobs could be generated.

"If they could tackle this it would be a major source of growth in itself," says Mr Huang.

Even if China has not managed yet to reap much short-term benefit from housing reform, the long-term prize is still substantial. But it will still take considerable political courage to attain.

Shanghai tower blocks rise above old-style housing

RETAILING by James Harding

Consumers are clear winners

Retailers have had little power to stop sinking prices and narrowing margins

In China's oversupplied and highly competitive retail market, the one clear winner is the Chinese consumer.

Over the last year, prices fell steadily, while the choice of products continued to grow. At the big-ticket end of the market, the cost of a Volkswagen sedan car in Shanghai has been cut from RMB140,000 at the beginning of last year to RMB115,000 today.

Consumer electronics are cheaper too: a bottom-of-the-range microwave oven now sells for RMB500, by comparison with RMB820 in early 1997. Even many food items – from a bowl of instant noodles to a kilo bag of frozen chicken feet – cost markedly less than a year ago.

But the potential boon to consumers has been a very real drag on the growth of consumer goods manufacturers, distributors and retailers, which have had little power to stop sinking prices and narrowing margins.

Zhang Xinsheng, president of Hualian Group, one of China's leading retailers, says: "Income growth has slowed, just as people have to spend more in new areas such as insurance, education and housing. Weaker consumer power and oversupply have worked together to create a sluggish market."

Retailing margins have been in decline since the early 1990s. In Shanghai, official figures show that profit margins at commercial enterprises sunk from 3.51 per cent in 1991 to 1.2 per cent in 1996. Today, industry analysts suggest the average is around 1 per cent.

The onset of deflation since last year has further eaten into the businesses of making, trading and selling consumer goods. Prices were falling in many sectors well before October 1997, but every month since then official figures have shown gathering deflationary pressure.

China recorded a 3.3 per cent decrease in retail prices year-on-year in September. Deflation itself is working to dampen consumer demand, because Chinese customers are delaying purchases as they wait for lower prices.

Consumer hesitancy also serves as a telling barometer of popular confidence in the economy. Mr Zhang says there are "psychological reasons" for the lacklustre market conditions.

"As a result of the Asian financial crisis and the sharp devaluation of the Russian currency, Chinese consumers are more cautious in spending money, which is why consumer demand has not recovered even after prices have fallen."

As redundancies have hit not just rusting old state-enterprises, but also the service industries that have over-expanded on rosy expectations of growth, job insecurity has become a new feature of metropolitan China.

Those safe in their jobs are facing a slowdown in income growth, a marked departure from the more than 10 per cent annual salary rises earlier in the 1990s.

Modest demand in urban areas was expected after China's city-dwellers went on a shopping spree in the mid-1990s. Almost all urban homes are equipped with a colour television, a refrigerator and a washing machine.

But as the retail industry turns its attention to the next tier of Chinese consumers – rural buyers – it is disappointed by the low level of sales. The urban-rural gap in disposable incomes has frustrated retail ambitions in the countryside.

Per capita consumer spending in rural areas is 60 per cent lower than in urban areas, according to recent figures. Chronic oversupply both in manufacturing industries and retailing has been as much of a factor in the industry's troubles as the financial health of Chinese consumers.

China's motorcycle industry, for example, has an overall capacity of 15m units, but demand is limited to 8.5m-9m a year, according to an official at Jianshe-Yamaha Motor, a motorcycle manufacturer in Chongqing.

Other companies have been cutting prices by as much as 20 per cent this year. Some of China's 200 motorcycle manufacturers are piling up losses and are expected to close. In the ice-cream business, there is a similar case of overcapacity, cost-cutting and forecasts of consolidation. Foreign ice-cream makers say China is the most competitive market in the world – in Shanghai alone there are more than 700 ice-cream products on sale, made by more than 100 manufacturers.

Not all are likely to survive, particularly amid a general slowdown in the consumer goods industry. "There will be three survivors in Shanghai, " says Dave Stoneman, general manager of Shanghai A.S. Watson Yimin Food Company, which makes Mountain Cream, the leading Hong Kong brand in China.

He suggests most of the local loss-making companies will be forced to fold, leaving Mountain Cream, Wall's, owned by Anglo-Dutch Unilever, and Nestle, the Swiss group. "The others do not have the strength to deal with the competition."

The retailing industry itself has suffered from a similar story of a sudden surplus of supply. In Shanghai retailing floorspace more than doubled as the number of supermarkets grew at the rate of 100 stores a year to reach more than 900 in 1998.

With the increase in the number of retail outlets, profit growth at some of China's best-known shops has gone into decline. According to figures in an official newspaper, profit growth at China's top 100 department stores turned from a 19.9 per cent increase in 1991 to a 38.3 per cent decline in 1996.

The competition makes China's retailing sector a challenging one for foreign retailers. But, this year, fresh regulatory hurdles are posing an even bigger obstacle to entry and expansion.

Beijing has ordered the "reorganisation" of the 277 Sino-foreign joint ventures in retailing, a move to protect local shopowners from international competition. Under the restructuring, many international investors in retailing joint ventures are required to hand over majority ownership to their Chinese partners.

Regulations on the opening up of the retail sector announced in 1992 required that pilot commercial joint ventures be approved by the State Council, China's cabinet, and that Chinese partners should hold at least 50 per cent of the shares in the joint venture.

POLITICS by James Kynge

Reform reaches top level

Assessing the forces shaping Beijing's policy is no longer a question of reading one man's character

To describe China's new government as technocratic is not remotely controversial. Jiang Zemin, the president, was trained as an electrical engineer. So was Zhu Rongji, the premier.

In fact, of the seven members of the politburo's standing committee six are engineers and one studied architecture. This pattern repeats itself throughout the state council, or cabinet, and down through the ministries.

Such an observation may appear humdrum, but in China it is anything but. The new government appointed in March cemented the transition from the type of charismatic leadership characterised by Deng Xiaoping, who died last year, to a new era in which decision-making has become less centralised.

"As technocrats they are, above all, problem solvers," says David Shambaugh, director of the Sigur Centre for Asian Studies at George Washington University.

"They are not utopian ideologues, bent on remoulding society to their vision. They tend to perceive and tackle problems incrementally and in isolation rather than viewing issues systemically and looking for a comprehensive solution."

Socialist ideology and dogma appear to have virtually vanished from China's political arena.

Assessing the forces shaping Beijing's policy is no longer a question of reading one man's character. Against most expectations, a complex, collective leadership structure has emerged.

Mr Zhu has clear responsibility for the economy. Mr Jiang sets foreign policy with the help of Qian Qichen, a vice-premier and former foreign minister.

Wu Yi, formerly foreign trade minister, is responsible for overseeing trade policy and China's strategy to gain entry into the World Trade Organisation.

Wen Jiabao, a vice-premier and rising star, is charged with overseeing agriculture and the reorganisation of the country's financial system.

Wu Bangguo, another promising vice-premier, has been given the challenging portfolio of guiding state enterprise reform.

Li Peng, the former premier and a conservative, retains influence from his position as number two in the Communist Party hierarchy but appears vastly outnumbered by reformists in the higher echelons of government.

The transition of power from Mr Deng to Mr Jiang has been surprisingly smooth. But it would be premature to assume that significant tensions do not exist behind the composed exterior that China presents to the world.

Beijing is wrestling with enormous economic and social problems of a long-term and structural nature.

Striking a balance between the need to attract foreign investment and the mounting pressure to protect domestic industry may become more tricky. The painful but crucial reforms to state-owned enterprises and the banking system tend to run counter to the need to keep unemployment from surging.

And yet, if rising unemployment was to lead to social unrest, a conservative backlash would probably be unavoidable. Much of the nuance and debate that characterises the post-Deng era would be swept aside. The machinery of communist control would be recommissioned, observers said.

The issue of Taiwan could also test the new power nexus. Despite a recent improvement in the atmosphere across the Taiwan Strait, underlying bilateral strains are gathering strength.

Taiwan's opposition Democratic Progressive Party, which favours independence from Beijing, is expected to put up a strong showing in elections in December.

But for the time being an aura of balance and professionalism surrounds Mr Zhu's new team. The bold reorganisation of the central government structure that began in March is now almost complete. The complement of ministries has been cut from 40 to 29 and staff numbers slashed by nearly half.

The speed with which the bloated bureaucracy was trimmed, despite rankling opposition, indicates the force of Mr Zhu's personality.

Businessmen and diplomats have complained, however, that the reorganisation disrupted the work of the ministries for several months. Some also found that important contacts cultivated over many years have been moved on.

Some ministry-level bodies have emerged from the reshuffle with clearly enhanced powers. The State Economic and Trade Commission has been charged with creating vast "Fortune 500" conglomerates in the all-important steel, energy, chemicals, motor and textile industries.

The Ministry of Information Industries has consolidated control over telecoms and electronics businesses but is still vying for greater control of the country's vast television market, now regulated by the State Administration of Radio, Film and Television.

The structure of government has not been the only focus of the technocrats' taste for re-engineering. Perhaps Mr Jiang's boldest move yet as president was his order in July that the People's Liberation Army should get out of business.

If carried through, it would require the divestment of 20,000 firms.

The directive appears to have been driven by a desire to stop the army's rampant smuggling activities. But there is also evidence that Mr Jiang may be attempting to reposition the army as a professional fighting force with waning influence in politics and business.

For the first time since the army installed the communist government in 1949, there are no generals on the politburo's standing committee.

But beyond the drive for a professional government, national prosperity and the rule of law, it is difficult to attribute a vision to Mr Jiang.

It is far from clear, for instance, whether he believes the law should one day be allowed to regulate the activities of the Communist Party, which is at present held "above everything", and the process of government.

The issue of electoral reform is equally opaque. Villages in many parts of the country have conducted competitive elections, but these are poorly monitored and moves to set up opposition parties have been swiftly crushed.

It could be that Mr Jiang regards some form of participatory democracy as desirable to condition the rule of law, but there is no evidence to this effect. What does seem certain, though, is that corruption, if not systemically checked, could eventually rot the communist system to its core.

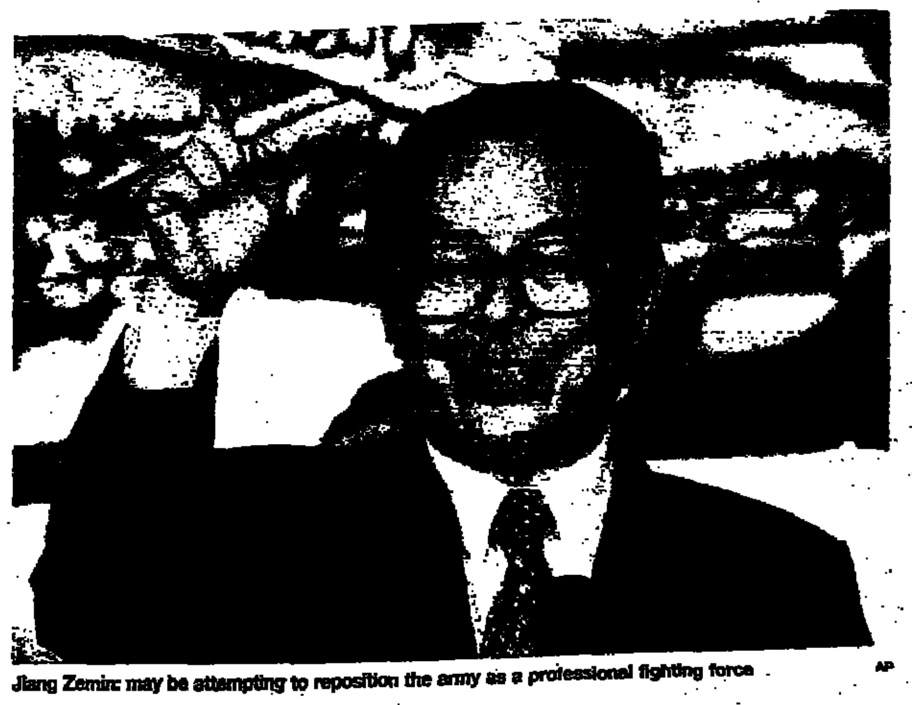
There are plenty of warnings to this effect in Chinese dissident literature on Internet sites such as "Tunnel". A recent anonymous piece argued that China has no choice but to start political reform if it wanted to sustain economic development and keep corruption in check.

In think-tanks, universities and other more formal settings a lively debate on civil liberties, human rights, the rule of law and democracy has begun.

The signing of the United Nations covenant on civil and political rights in October is likely to add impetus to this debate as academics study the document to prepare for eventual ratification.

But whether these discussions are straws in the wind or the portents of imminent change may only be revealed over time.

'Socialist ideology and dogma appear to have virtually vanished from China's political arena'



Jiang Zemin: may be attempting to reposition the army as a professional fighting force AP

FOREIGN POLICY by Stephen Fidler

Strategy for improved relationship with US

The issue of human rights is likely to continue to be contentious, even though the Chinese government signed the UN convention on human rights in October. But the most problematic area of all remains Taiwan

China's presence on the world stage has grown significantly over the past year. It has been praised for acting as a bulwark against financial turmoil in Asia, and in so doing has emerged as a regional economic power with global influence.

It has played a significant role as a permanent member of the United Nations Security Council in reacting, for example, to nuclear tests by India and Pakistan.

The 18 months since the handover of Hong Kong by Britain have gone as smoothly as could be expected, given the depth of Asia's financial and economic troubles.

And Beijing has played host to a succession of foreign leaders, most notably the US' President Clinton, whose visit was regarded as successful by both sides.

Chinese officials have a ready explanation for the country's growing confidence in international affairs. It follows from China's expanding economic power.

"China has become more and more involved in international affairs and more engaged in international organisations and with individual countries," says Wang Yingfan, vice-minister of foreign affairs.

Twenty years ago, when China began to open its economy to the world, its trade was just over $20bn, he notes. Two-way trade amounted last year to $325bn.

"If foreign trade volume today were still $20bn, no country would care what China thought no matter how volatile the international financial situation," he says. "Today, China stands as an important trading nation, so whatever move China makes has a much more significant influence than it would have had 20 years ago."

Su Ge, professor at Beijing's Foreign Affairs College, the school for China's diplomats, puts it in a different way. "Chinese economic development is the basis of foreign policy," he says.

According to Professor Su, China's focus on peace and security and economic development has allowed its foreign policy objectives to converge with those of the US, its most important bilateral relationship.

The sharp deterioration of relations in 1995-96 over Chinese missile tests in the Taiwan Straits brought the US and China closer to war than it appears either side wanted.

A determined effort since then in both Beijing and Washington has tried to improve ties to prevent such tension from occurring.

Mr Wang says the exchange of visits between President Clinton and President Jiang Zemin since last year "has brought the Chinese-US relationship to a new stage". Their decision to build "a constructive strategic partnership", he says, "sets the framework of and points the direction for the China-US relationship in the 21st century."

Of course, the relationship is likely to remain tricky. The issue of human rights is likely to continue to be contentious, even though the Chinese government signed the UN convention in October. But the issue that is most problematic remains Taiwan.

From Beijing's perspective, one of the most important developments during Mr Clinton's visit was his affirmation in Shanghai of the so-called Three Nos. "We don't support independence for Taiwan, or two Chinas, or one Taiwan one China," he said. "And we don't believe that Taiwan should be a member of an organisation for which statehood is a requirement."

While US officials depicted this as an exposition of long-standing policy, it was the first time it had been so enunciated by a US president. It made it clear, to the chagrin of the government in Taipei, that the US considered Beijing rather than Taipei the rightful heirs to a reunited China.

That Mr Clinton had said this on Chinese soil added another layer of significance for a Chinese audience, though the "we don't support" formulation was not the outright opposition Beijing would have preferred.

Professor Su says the US strategy is to exert pressure on both sides. Washington uses its influence on Taiwan not to declare independence and not to provoke the mainland, and on China not to use force against Taiwan because it is committed to defend Taiwan under the Taiwan Relations Act.

Implied here is a Chinese suspicion that what the US is really interested in is preserving the status quo. The unspoken danger from Beijing's perspective is that, as time passes, the population of Taiwan would become increasingly less interested in reunification.

There are other complications from the perspective of Beijing. Says Mr Wang: "There are pro-Taiwan forces in the US Congress . . . that want to include Taiwan in their theatre missile defence system.

"If that happened, it would be detrimental to the strategic balance and stability in our region. It would also pose an obstacle to the peaceful resolution of the Taiwan question and the peaceful reunification of our motherland."

China is also worried about new guidelines for defence co-operation negotiated last year between the US and Japan and which raise questions about the extent to which Taiwan is, de facto, covered by the US-Japanese security umbrella.

Worries in Japan about its vulnerability to missile attack have increased since a missile test by North Korea.

Says Mr Wang at China's foreign ministry: "We do not wish to see countries, because of their concern over this, taking measures that are detrimental to peace and stability in the region.

Indeed, of all the world powers, China's relationship with Japan remains the most difficult. "Fraught" is the word used by the Japanese foreign ministry spokesman.

WORLD TRADE ORGANISATION by Stephen Fidler

Very long march to join the 'club'

China has been seeking membership of the WTO or its predecessor, the GATT, for more than a decade, and the government insists publicly it is as committed as ever

China is the largest trading nation outside the World Trade Organisation. Whether it joins the organisation or stays out, it poses important questions for the world trading system.

China has been seeking membership of the WTO or its predecessor, the GATT, for more than a decade, and the government insists publicly it is as committed as ever.

"We must comply with international trading rules that everybody else complies with. We wish to become a member of the WTO at an early date," says Wang Yingfan, vice-minister of foreign affairs.

Yet, there is growing evidence of frustration among those negotiating with China at what Charlene Barshefsky, the US trade representative, calls "the almost unbearably slow" pace of negotiations.

She has been insisting on a "commercially viable" agreement for Chinese entry, indicating that China will not be waved into the WTO on political grounds, a position upon which US and European negotiators are closely aligned. Yet, she questions whether the Chinese government has come to terms with the implications of this.

"The question is whether there is the political will in China to reach a substantive decision on admission. Is it ready to make the changes on rules and market access that the other 130 members have made? China cannot be an exception or the system will collapse," she says in an interview in Washington.

After "quite good progress" in negotiations in 1997, "the momentum slowed down" this year. Beyond that, she argues: "We are seeing some potential backsliding on a series of promised reforms, including those with respect to state-owned enterprises.

Most recently, the government has decided to recapitalise certain loss-making enterprises apparently to protect jobs, but at the same time restrict imports in these sectors." Some foreign direct investors, for example in telecommunications, were also facing increased obstacles.

Membership on easy terms for China would have profound consequences for developing country members of the WTO whose goods compete directly with China, she says.

It would also set precedents for more than a dozen other countries now seeking membership, starting with Russia, Vietnam and a string of former republics of the Soviet Union.

Yet, the Asian crisis and deteriorating economic conditions at home have led some observers to believe that China cannot handle early membership.

Zhang Yunling, director of the Institute of Asia-Pacific Studies at the Chinese Academy of Social Science in Beijing, says: "The greatest priority for the leadership is the domestic economy . . . It's not the time [to join]."

Joining the WTO is more than a matter of liberalising the market, he says, but also of widespread institutional reform. "If we just liberalise the market, we'll have a crash."

According to a World Bank official: "China doesn't feel it can get a very good deal right now. The world powers are not going to give flexible enough terms."

In the face of the Asian crisis, China's leaders are concerned about the consequences for uncompetitive state-owned enterprises and the social consequences of growing unemployment. "They don't think they can afford it domestically. Six to eight months ago, they might have been able to say that they can manage it. Right now, they don't have the same degree of confidence."

Ji Xiaonan, director of the department of policy and law at the State Economic and Trade Commission, says there is still the will to join. But he adds: "The problem lies with the conditions of the WTO. Some of these conditions are too severe and we can't meet them . . . Our fundamentals are very weak."

He says trading partners "only focus on our coastal regions but our vast inland provinces are quite weak... I also personally feel that the current financial crisis in Asia and the slowing down of the world economy also poses a threat to Chinese economic development".

According to Shen Jiru, a professor at the Institute of World Economics and Politics at the Chinese Academy of Social Sciences, "the Chinese economy is very uncompetitive except for the garment industry and toys."

European officials say China has offered to reduce average tariffs on goods included in the offer, to 10 per cent on entry, from about 17 per cent now. Its main trading partners would prefer to see average tariffs of 7 to 8 per cent.

However, this tells only part of the story. There remain many tariff peaks above 15 per cent which would not be significantly reduced.

On cars, for example, China has offered to cut tariffs to 60 per cent, unacceptably high, to the EU officials.

On telecommunications, China has pledged to open its mobile telephone services market to direct equity participation five years after WTO entry, allowing for foreign equity stakes of up to 25 per cent.

This is less than some foreign companies enjoy in some current telecommunications ventures, which the Chinese government now appears to be winding up.

Meanwhile, in financial services and agriculture, there has been no substantive offer.

Yet, if China does not join the WTO, the bar to entry will continue to rise as new agreements are incorporated into the world trading system.

This could mean one of the world's largest trading powers remains indefinitely outside the rule of international trading law.

There is another conundrum posed by delaying Chinese entry to the WTO: Taiwan. Taiwan has progressed significantly farther than China in its negotiations over WTO entry in both negotiating areas: trading rules and market access. The question this raises is whether Taiwan should be allowed into the WTO before China.

China would react powerfully to such a move, and some negotiators now are concerned that China's tactic in WTO negotiations may be to string the organisation along tantalisingly, with the main objective of delaying Taiwanese entry.

Yet membership of the WTO does not imply statehood: Hong Kong has long been a member. "If membership is not a political issue but a commercial one, as we are saying, why are we delaying Taiwanese membership?" asks one western official.

Additional reporting by James Kynge.

'There is growing evidence of frustration among those negotiating with China at the almost unbearably slow pace of negotiations'

CHONGQING by Peter Montagnon

Experiment that must not fail

Chongqing is one of only four towns to have special municipal status under which it reports directly to the central government rather than to a provincial authority

Ask which part of China best typifies the adjustment problems facing China's vast hinterland and many will answer Chongqing, the large south-western city 2,500 kilometres from the coast at the confluence of the Jialing and Yangtze rivers.

Famous as a nationalist stronghold during the civil war, Chongqing is well-known to tourists as the starting point of river cruises down the Yangtze.

Since last year it has also become one of only four towns in China – alongside Beijing, Tianjin and Shanghai – to have special municipal status reporting directly to the central government rather than to a provincial authority.

Now the municipal government is trying to make this enclave of 30m people a commercial and industrial hub serving the whole 200m-strong market of southwest China, and even eventually developing export routes into south-east Asia.

With Shanghai and the coast only six days away by Yangtze cargo steamer, it believes it can also be a more general base for exports.

It is an uphill struggle. Like other regional governments, the Chongqing municipality has to deal with the decline of state-owned industries.

The city has traditionally been a centre of heavy industry – automotive, chemical and steel. In earlier days it was also developed as a centre of the now declining defence industries, and all that has left a bitter legacy.

Some 220,000 people have been laid off so far in state enterprise reform, says Wang Hongju, deputy mayor. Still the air is thick with pollution. On a bad day you can barely make out the waters of the Yangtze from the majestic Changjiang bridge that soars across the river in the centre of town.

To add to the local government's problems, the municipality has also been made responsible for resettling some 1m people displaced by the construction of the Three Gorges dam.

Nor has Chongqing escaped the deflation facing other parts of China. Visibly poorer than the big coastal cities, it is nonetheless obviously reeling from the effects of a real estate bubble.

Clustered round the revolutionary monument in the pedestrianised town centre, a bunch of empty, half-finished skyscrapers tower upwards, exposing their unfinished concrete interiors to public gaze.

Even in those which are complete, such as the Metropolitan Plaza developed by Hong Kong's Li Kashing, prime retail sites remain boarded up.

Yet the government remains undaunted. Buoyed by Chongqing's new status, Mr Wang says the city's growth rate, which is officially expected to be around 9 per cent this year, is well above the national average.

Fiscal revenues have risen by 17 per cent over 1997. Foreign investment is flowing in at a rate similar to last year's $1bn.

Around half those laid off in state enterprise reform have been found new jobs, mostly in the private sector and, adds Li Yingru, director of the housing reform bureau, 332,800 housing units, or two-thirds of the stock available for disposal, have been sold since 1994.

Large international companies with investments in Chongqing range from ABB in power transformers to Carrefour in retailing and last year Bank of Nova Scotia became the first foreign bank to set up a branch there.

Western diplomats say the local infrastructure has been improved with better transport links such as the new 500km expressway to the Sichuan capital of Chengdu which has reduced driving time between the two cities by almost two-thirds, though the road surface is hardly smooth.

Still there is no feeling of a boom. At the Yamaha-Jianshe motorcycle venture, director Liang Xueben complains that his profits have collapsed and he has had to cut his prices by 8 per cent because of weak demand in a heavily oversupplied market. Some workers on short-term contracts will not be rehired.

Much work remains to be done on the state enterprises and on building incomes in the rural sector of the municipality which have been under pressure because of a glut in food supplies.

Mr Wang says the municipal government is trying to bring relief by encouraging the development of processing industries, including a sausage factory and orange-juice plant, which will bring the farmers a more stable income.

Peasants who are being relocated because of the Three Gorges project are being given better quality housing and new opportunities, for example in pickle manufacture.

With its underlying economic tensions, Chongqing is one of those places where China watchers fear the risk of social unrest as old industries are wound down and expectations scaled back.

In giving Chongqing its new status and allowing preferential treatment for foreign investment, the central government must be hoping it has also created an incentive for the municipality to create a dynamic economy that will spread wealth through one of China's poorer regions.

Whether it will succeed remains an open question against today's inauspicious economic backdrop.

But for both the city government and for Zhu Rongji, China's prime minister who has made development of the hinterland a main priority, this is an experiment that cannot afford to fail.

PEOPLE'S LIBERATION ARMY by James Kynge

Military to quit business

Before party bosses can slim down the defence forces, they must first liquidate much of 'PLA Inc' which has a sprawling commercial empire of roughly 20,000 enterprises

A fashionable crowd sways to the technopop beat at the Hotspot Disco in central Beijing. From the ceiling a couple of metal cages are lowered on ropes to reveal their "prisoners": young women in PVC doing a slow, writhing dance.

Nothing about the establishment betrays that it is owned by the People's Liberation Army (PLA), which installed China's Communist Party in 1949. But it would hardly seem remarkable to most Chinese that the organisation responsible for the nation's security is engaged in such twilight business ventures.

The fact is that the PLA is one of China's biggest entrepreneurs. What began in the mid-1980s as a means of compensating for inadequate military budgets has burgeoned into a sprawling empire of roughly 20,000 enterprises, said to provide about one-third of the military's operating expenses. "PLA Inc" had forged many joint ventures with foreign investors and was starting to invest overseas.

So it came as a considerable surprise when Jiang Zemin, the president, ordered in July that the PLA (which also comprises the navy and air force) should quit business altogether.

The order, if it is carried through successfully, could rank as one of Mr Jiang's greatest achievements. The task he has set himself amounts to nothing less than the repositioning of an organisation which wields immense political and commercial influence, and is often regarded as enjoying a status above the law.

In September last year, Mr Jiang appointed the first standing committee of the Communist Party's politburo that does not include a member of the military. He also announced plans to cut the 3m-strong armed forces by 500,000 as part of efforts to create a more professional defence system.

Chinese officials say the ultimate goal of Mr Jiang's reforms is to foster an army that is dedicated to national defence, answerable to the laws of the state and not distracted by business.

General Fu Quanyou, head of the army's General Staff Department, talks of a "high-tech, modern" defence force.

"The army must hold high the banner of opposing money worship, hedonism and extreme individualism and wage a resolute struggle against the negative phenomenon of corruption," the People's Liberation Army daily said in an editorial.

Such aims might seem to define minimum expectations for any army, but the realisation of them in China would mark a profound shift in the country's body politic. Separating the PLA from its business revenues would render it more dependent on the state budget and therefore diminish the political clout of top generals, analysts say.

It is understood that pressure from the PLA prompted Mr Jiang to embark in 1996 on ill-advised missile "tests" near Taiwan, Beijing's rival since the end of the civil war in 1949. This sabre-rattling has since been discredited; some officials now privately acknowledge that it turned many average Taiwanese against the idea of reunification with the mainland.

From an economic standpoint, too, the PLA's involvement in business has become counter-productive. The army, despite its roots as a self-sufficient guerilla force, has proven generally inept at civilian business. The current economic slowdown, especially in the state sector, has accentuated the PLA's shortcomings and strengthened arguments that it should quit commerce.

The Shenyang Aircraft Corporation, one of the top enterprises in the military-industrial complex, provides a relevant case study. The company's range of about 200 civilian products displays a dizzying disregard for synergy. It makes buses, jeeps, window frames, industrial filters, production lines for television manufacturing, metal shelves and hovercraft – to name a few.

Its "problems left over from history" mean that a payroll of 18,000 people support another 11,000 pensioners. The company also runs five elementary schools and four middle schools for the children of employees. Its annual interest payment to banks is RMB60,000 to RMB70,000, more than its total profit in 1997 of RMB20,000, says a senior executive at the company.

The enterprise's diversification into civilian business has had limited success in financing its core activity – the development and construction of China's fighter jets. And the economic slowdown this year has hit the company so hard that it has had to accept bartered goods such as "detergent, bicycles and Mercedes" in lieu of cash payments from hard hit customers, the executive said.

Anxious to bolster flagging earnings, the PLA has become the main culprit in a smuggling boom which one official said in the summer was costing customs authorities RMB100bn in revenues. It was these growing smuggling activities that caused Mr Jiang's patience to snap.

But real questions remain over whether and how the PLA can be removed from business. Early signs have been encouraging. Sanjiu Enterprises Group, a pharmaceutical company with US$1.2bn in assets, was in November in the process of being transferred to the control of the State Council (cabinet), executives said.

But it may be more difficult to bring firms such as Poly Group, the largest and most profitable of the PLA companies, under civilian control. Poly, headed by General He Ping, a son-in-law of the late Deng Xiaoping, is China's chief arms merchant.

It may turn out that PLA enterprises of an obviously military nature will be subsumed by the ministry of science, technology and industry for national defence, analysts say.

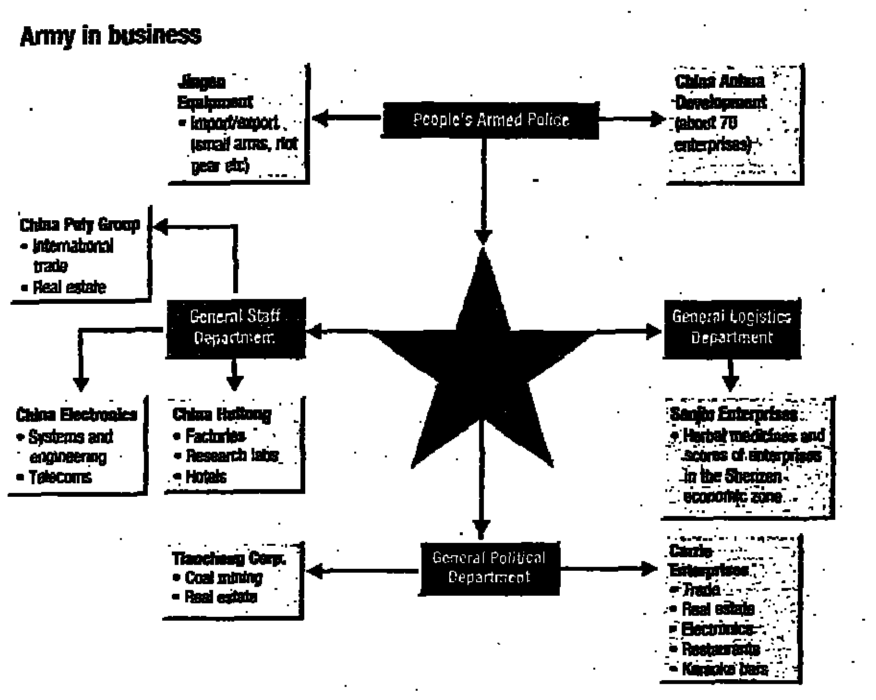
Those of a primarily civilian nature would be more likely to be taken over by the state economic and trade commission, a powerful state council body responsible for creating what China hopes will be internationally competitive corporations in the 21st century.

The mechanism of the transfers has so far been kept secret, and it was not clear whether the government plans to pay the PLA directly for corporate assets.

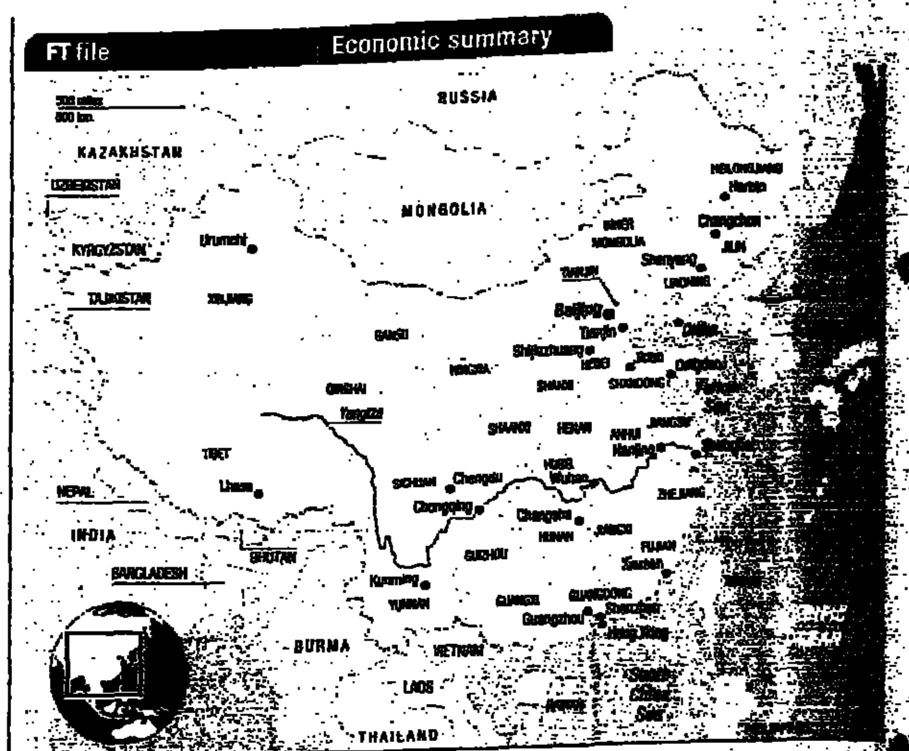
But one thing is clear: if the transfer is successful, the government will have to compensate the army for lost revenues – adding new strains to a government budget already hit by falling contributions from state-owned enterprises.

The Hotspot disco, and other small and medium-sized ventures which account for 95 per cent of all PLA ventures, are expected to be sold off to any civilian willing and able to buy.

Army in business



FT file — Economic summary



- Area: 9,561,000 sq km
- Currency: Renminbi (RMB)
- Exchange rate: Fixed $1=RMB8.3
- Language: Mainly Putonghua (Mandarin); local dialects and languages are used
- Population: 1,223.9m (end-1996 estimate)
- Main cities & population (end-1996 est)

Beijing (capital)	10,800,000
Chongqing	15,300,000
Shanghai	13,000,000
Chengdu	9,800,000
Harbin	9,100,000
Tianjin	8,900,000
Shijiazhuang	8,500,000
Wuhan	7,200,000
Qingdao	6,900,000
Guangzhou	6,600,000

Economic summary

	1997	1998 (forecast)
Total GDP ($bn)	901.9	962.0
Real GDP growth (annual % change)	8.8	6.1
GDP per head ($)	733	776
Inflation (annual % change in CPI)	2.8	-2.5***
Average wages (annual % change)	7.0	4.0
Industrial production (annual % change)	11.1	9.0
Unemployment rate (% of workforce)	3.1	3.3
Foreign exchange reserves ($bn)	139.9*	144.8**
Current account balance ($bn)	29.7	37.3
Merchandise exports ($bn)	182.7	195.2
Merchandise imports ($bn)	136.4	136.7
Trade balance ($bn)	46.3	58.5

* December ** August *** September

Sources: Economist Intelligence Unit; IMF; State Statistical Bureau

People's Liberation Army on the march: the organisation responsible for the nation's security is also engaged in many twilight business ventures AP

POWER INDUSTRY by James Harding

Chronic shortage to oversupply

The imbalance between rising electricity output and slower industrial production will reduce scope for investmnent

China's power industry has confused economists and confounded investors this year.

In the past, electricity output grew at roughly half the rate of gross domestic product. But in the first nine months of this year, output rose by just 2 per cent while the economy grew an annual rate of 7.2 per cent.

Nor do the power figures immediately seem to tally with the 8 per cent increase in industrial production, which in China's manufacturing-heavy economy is almost all electricity-driven.

Sceptics say electricity generation is a more reliable measure than headline economy figures, which are more prone to the kind of political massage that ensures China's reaches its sensitive growth targets. For them, the divergence between the power statistics and the economic numbers is puzzling.

"Every indicator suggests China's economy is growing much less quickly than 8 per cent [China's growth target for 1998]. The statistics on one side must be wrong . . . and it is much easier to measure units of energy consumed than GDP growth," says one analyst in Shanghai.

The slowing electricity demand growth only undermines already waning foreign enthusiasm for investment in China's power industry.

Within a few years in the 1990s, China's electricity sector has switched from a situation of chronic shortage to general oversupply.

At the same time, China wants to buy equipment to develop its power industry from domestic rather than overseas manufacturers.

"There is now an electricity overcapacity problem in China," consultants Cambridge Energy Research Associates said in a report earlier this year, marking the dramatic shift in market conditions.

"For half a decade, China has been the prime underserved market – and the stuff of dreams and aspirations for private power developers . . . [but] there is overcapacity in nearly every area where conditions would be attractive for investment at this time," the Cera report said.

The rapid installation of new capacity – roughly 10 GW per year for the last 10 years – has been chiefly responsible for the apparent supply surplus in many areas of China.

Huge regional differences exist in the development of China's power sector. Inland provinces, such as Gansu, Qinghai, Henan and Sichuan still face serious electricity shortages, while coastal areas now face serious excess capacity.

Foreign investment has played an important part in the rapid development of China's power industry.

By the end of last year, the State Power Corporation, the ministry-level body responsible for the administration of the sector, recorded 96 foreign-funded projects with a total contracted foreign investment of $23.7bn. China's total generating capacity at the end of 1997 was 254m KW.

But against the background of a growing overcapacity problem and a softening of demand growth, investors have started to show their frustration.

In September, AES Corporation, one of the largest foreign investors in China's power sector, said it would not invest "another dollar" until the Chinese authorities resolve problems that have hit the company's operations.

'There is now an electricity overcapacity problem in China'

"Every month, someone tries to break a contract or get out of some sort of payment," said Bill Ruccius, president and chief executive of AES Orient, the north Asia division of the company that has invested $380m in nine power projects with a total capacity of 3,000MW in China.

The changing conditions in the power market, as well as the shift in foreign investor perceptions, have focused attention on different areas of the industry, such as distribution, hydropower and the future of nuclear energy.

The development of China's power grid promises strong growth in the next few years, but, again, the prospects for foreign investors may be mixed. China plans to invest about $12bn to upgrade its urban power grids over the next three years.

But, in a signal that echoes Beijing's other moves away from foreign suppliers, the State Power Corporation has said it plans to source the bulk of equipment from Chinese companies.

"The programme is expected to play an active role in promoting the domestic machinery and electronics industry, because almost all the equipment needed in the upgrading project will be purchased at home," the official media has reported.

China is trying to funnel foreign investment into specific areas of the industry, particularly where international participation will foster domestic technological development.

Zhang Xuezhi, director of the hydropower development department at the State Power Corporation said earlier this year that "massive hydropower projects are planned that will create colossal demand for international loans, overseas technology and equipment and direct foreign investment".

The Three Gorges Dam will make a significant contribution to China's hydropower output on completion in 2009. But, between now and then, the project is likely to continue to be dogged by international human rights and environmental groups.

Their protests, which have focused on the forced relocation of more than 1m people, the destruction of wildlife caused by the creation of a 600km-long lake and the environmental dangers of building such a huge man-made lake, have ebbed in recent years.

However, the controversy is likely to resurface as the project looks overseas for funds to help meet the estimated $24.5bn cost of building the world's largest hydropower station.

The development of China's nuclear energy industry is also likely to raise concerns abroad and at home.

But, in a country so overwhelmingly dependent on coal-fired power, which is already having a hugely damaging impact on the environment and public health, an increase in nuclear electricity output has become an important target for the managers of China's power industry.

China currently operates three nuclear power plants: two plants at the Daya Bay facility in Guangdong Province, and the Qinshan plant in Zhejiang province just south of Shanghai. But Beijing has set targets for the accelerated development of the sector: by 2020, China is aiming to have 50,000MW of nuclear capacity, compared with the current 2,100MW.

Growth in the nuclear sector, could represent between $1.5bn and $2.5bn in contracts to foreign equipment suppliers each year, industry analysts suggest. But, as is already the case elsewhere in the Chinese power industry, the competition will be stiff and margins slowly whittled down.

This year, after long negotiations to allay US fears over the onward export of nuclear technologies and the use of equipment in the military, President Clinton agreed to allow US companies to export civilian-use nuclear energy equipment to China.

UNEMPLOYMENT by James Kynge and James Harding

Solving the queue problem

The jobless ranks have reached the highest level since 1949 and could top 18m by next year

Rising unemployment has become perhaps the single most powerful factor in forming China's economic policymaking.

Through the centuries, Chinese leaders have feared unrest spreading through a disgruntled populace. The lack of an effective social welfare network has meant that unemployment can, and does, increase the incidence of crime and the potential for mass social disturbance.

But as the country transforms itself from rigid central planning to a more market-oriented economy, unemployment is an unavoidable byproduct. From these considerations has emerged a simple matrix: when unemployment is rising fast, the pace of painful reforms to China's vast state-owned industrial sector should be slowed.

Precisely this has happened this year. Hu Angang, a leading economist at the Chinese Academy of Sciences, says unemployment has risen to its highest level since the revolution in 1949, and the problem of joblessness is structural.

"We can clearly say China has entered the high unemployment phase," says Mr Hu. He estimates urban jobless at 13m-15m this year, or eight per cent of the urban workforce. Next year, it could climb to 18m, or nine per cent, he adds. Such figures are more than double the official statistics, which are regarded as too conservative.

Economists estimate that in addition to the urban unemployed, China has about 160m rural migrants, who drift in from the countryside to the city in search of labouring jobs. The number of this rag-tag army has swelled this year because of a slowdown in the township and village enterprise sector.

The potential for unrest is a powerful argument for economic stimulus, such as this year's infrastructure spending programme. Many economists believe that China does not have the option of allowing growth to slow down so much that unemployment balloons.

In addition, the changing shape of the national economy has meant that fewer jobs are generated for each percentage point increase in gross domestic product. This is because industry is becoming less labour-intensive and the service sector, which is contributing a greater share of headline growth, tends to soak up fewer workers than industry.

Yukon Huang, director of the World Bank in Beijing, says that a 10 per cent increase in GDP growth these days probably generates a 1-1.5 per cent rise in jobs, down considerably from previous phases in China's development.

The challenge of dealing with joblessness is therefore acute. Authorities throughout China have set up job markets catering to laid off workers from the more than 300,000 companies in the state sector. Their success rate is between 50-60 per cent, but the jobs that they place applicants in are often short-term, insecure and badly paid.

In Shenyang, formerly a centre of China's heavy industry but now in decay, one job centre was offering menial positions for as little as RMB200 a month. Other jobs were offering a monthly wage of about RMB600. Training, at least, is provided free for former state workers. "It takes about three days to train a shoeshine and about three months to teach a cook," says the director of the Shenyang Job Centre.

The all-but-disappearance of new listing business of Chinese companies on the capital markets and the decline in foreign direct investment has meant that business consultancies and accountants have had to lay off employees.

The volatility in overseas markets and the pressures on the global banking industry have also taken their toll on Shanghai's white collar workers. European and US stock brokerages have been cutting costs, some Asian firms have been moving into smaller premises and reducing the size of their operations and at least one Japanese bank and a Korean firm have withdrawn from Shanghai altogether.

The rate of people dropping out of professional positions - either laid off or prompted to resign - has quadrupled this year, according to Zhao Limin, director of an executive recruitment agency that operates under Fesco, the government agency responsible for finding well-educated young professionals for foreign-invested enterprises in Shanghai.

"Since the beginning of the year, in part due to the Asian financial crisis, there have been problems in China, not just for low-level employees in state-owned enterprises, but also for white collar workers."

Xu Kuangdi, Shanghai's mayor, has been vocal in his concern about developing service sector jobs to replace losses in the state industrial sector. In a speech earlier this year, he said: "Reductions in some areas of the work force are inevitable as part of a restructuring of Shanghai's industry and the reform of the state sector . . . Improving social guarantees for displaced workers is a key task for us in the future."

Some laid-off professionals plan to use their time wisely. "The next three years in China are not going to be good. I am going to do an MBA in the US. By the time I get back, the economy will be roaring ahead again," says He Bing, who lost his job in a trading company this year.

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